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**Capital Development in Indonesia:
Its Impact on the Political System**

by

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Submitted to the Graduate Faculty in the School
of Public and Int'l Affairs in partial fulfillment of
the requirements for the degree of
Doctor of Philosophy

University of Pittsburgh

1997

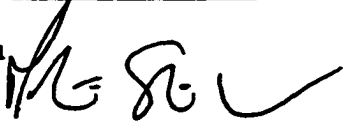
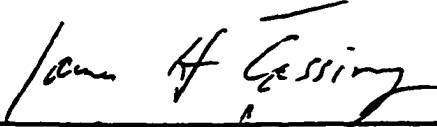
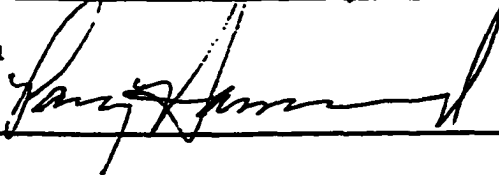
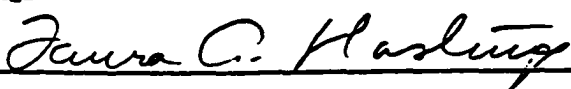
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ABSTRACT

CAPITAL DEVELOPMENT IN INDONESIA:
ITS IMPACT ON THE POLITICAL SYSTEM

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1997

This study attempts to identify and characterize capital development in Indonesia. Specifically, why, after three decades of capital expansion and infusion of massive financial resources into the economy, has the emergence of an open political system and a democratic regime remained elusive in Indonesia?

The hypotheses offered to answer this question is that a strong state, characterized by a powerful patrimonial system and pervasive corporatist institutions which were constantly nurtured with capital resources, has prevailed upon the processes of capital accumulation and class formation in a post-colonial society. These political forces and resources, particularly the windfall from the oil-boom of 1974-82, have allowed Suharto and other state managers to form, manipulate, and control various weak and state dependent groups in society from within the New Order state.

Extensive documentary research conducted in 1996 and 1997, followed by a historical analysis, revealed the changing nature of the state. It was transformed from a political structure where power is shared between the executive and legislative

branches and resources are lacking, toward a set of institutions where power is concentrated in the hands of Suharto, the military, and bureaucracy, and resources are ample. Additionally, the analysis showed that efforts to demand regularization of the state as well as political reforms by a variety of actors and groups from within civil society were futile due largely to the strength of the state.

Although the state-led capital development has brought significant changes to society, the bourgeoisie and middle class have remained weak and largely state dependent, while other subordinate classes, particularly the working class, incapable of organizing and mobilizing themselves. A comparison with South Korea's economic development, which eventually led to democratization, highlighted the relevance and importance of these structural configurations for initiating a democratization process.

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Chapter One

The Argument

This study attempts to identify and describe the capital development processes in Indonesia, particularly during President Suharto's New Order era. Extensive documentary research into the history of Indonesia's development revealed that a strong authoritarian state has constantly held its grip on the reigns of power, while its society shows no signs that it is capable to make demands for a more open and democratic political system.

The theoretical challenge is to explain, why a society, despite the implementation of capitalistic principles and continuous economic growth, has failed to form a democratic regime. The hypothesis is that a strong state, characterized by a powerful patrimonial system and pervasive corporatist institutions which were constantly nurtured through the availability of both foreign and national capital, has prevailed upon the processes of capital accumulation and class formation in a post-colonial society. This study is going to show that these political forces and resources, particularly the state income from the 1974-1982 oil boom, have allowed Suharto and other state managers to form, manipulate, and control various weak and state dependent classes in society, and thereby create a strong anti-democratic regime.

In 1960, South Korea was similar to Indonesia in terms of its

GNP per-capita.¹ Both countries embarked upon an economic development program characterized by state-led investments and heavy industrialization. They both experienced a crucial 17 year intensive investment period with substantial inflow of resources.² By 1992, South Korea had reached a remarkable GNP per-capita of \$ 6,790.00, while Indonesia has only attained a meager \$ 670.00, a ratio of approximately 10:1.

Not only did South Korea attain a higher standard of living relative to Indonesia, but the state-led capital development in South Korea also brought the people a democratic form of government in December 1987. Taiwan, Thailand, and Latin American countries have also experienced an increase in their standard of living through capitalist expansion and adoption of a democratic political system. In Indonesia, however, economic development has not led to wide political liberties. All indications are that the 77 year old Suharto will seek another seventh term in 1998 and continue to govern in an authoritarian manner.³ Why such an anomalous outcome for Indonesia?

To explain the phenomenon of countries changing their systems of government to democratic ones, authors have proposed a variety

¹ Then it stood at \$ 80.00 and \$ 60.00 respectively.

Sources: for Indonesia, World Bank Reports. For Korea: from Byung-Nak Song, The Rise of the Korean Economy (Hongkong: Oxford University Press, 1990), table 5.9, p.80.

² For South Korea this period lasted from 1959 to 1975, while for Indonesia it came slightly later, from 1974 to 1990.

³ Suharto is Asia's most enduring head of state since the death of North Korea's Kim Il Sung.

of approaches. Seymour Martin Lipset argues that a connection exists between democracy and certain socio-economic conditions. When social changes take place and the quality of life improves, they generate a circumstance that reduces class tensions and political polarization which further will permit autonomous and effective civil society participation in governing the country.⁴ Arguing for more specificity, other authors have proposed alternative structural explanations and the role of actors and events in the transition process toward democratization.⁵ It is not enough to merely dwell on the quality of life and its impact on societal changes alone, of equal importance is the influence capital development brings to the class structure.⁶ Alternatively, economic crisis and ruptures among the upper-elites may also lead to openings for the involvement of subordinate classes in a struggle that demands liberalization of

⁴ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," American Political Science Review (March, 1959), pp. 69-105.

Larry Diamond, "Economic Development and Democracy Reconsidered," American Behavioral Scientist, 35(4/5) (March - June, 1992), p. 485-487.

⁵ Doh Chull Shin, "On the Third Wave of Democratization: A Synthesis and Evaluation of Recent Theory and Research," World Politics, 47 (October, 1994), pp. 135-70.

⁶ Barrington Moore Jr., Social Origins of Democracy and Dictatorship: Lord and Peasant in the Making of the Modern World (Boston: Beacon Press, 1966), 559 pages.

Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), 387 pages.

an authoritarian system.⁷

Barrington Moore, for example, contended that increasing international trade in England had permitted the nobility to seek independence from the crown and further ally itself with bourgeoisie factions in towns. It was this alliance of upper classes that led the struggle to open the political system and brought England democracy.⁸

After observing that the bourgeoisie is most often opportunistic rather than patriotic in numerous cases, Dietrich Rueschemeyer, Evelyne Stephens, and John Stephens argued that the causes of democratization should be explored in a wider societal class structure, taking into account not only the upper and middle classes, but also other subordinate classes, in particular the working class.⁹ Capital development, they asserted, not only brings economic growth and prosperity to the country, but it also transform the whole class structure of society. This, in ^{in turn} turn, ^{this} is going to empower various classes in society,

⁷ Stephan Haggard, and Robert R. Kaufman, The Political Economy of Democratic Transitions (Princeton, NJ: Princeton University Press, 1995), 391 pages.

Gullermo O'Donnell, and Phillippe C. Schmitter, Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore, MD: John Hopkins University Press, 1986), 81 pages.

⁸ Barrington Moore Jr., Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World (Boston, MA: Beacon Press, 1966), pp. 413-432.

⁹ Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago, 1992), pp. 40-78.

particularly in terms of their mobilizing and organizing capabilities. Through these newfound powers and mechanisms the state-society relations will be affected and a democratization process be initiated. Through historical case studies they showed that the advanced capitalist countries in Europe, as well as developing countries in Latin America, Central America, and the Caribbean had followed this trajectory toward democratization.

While still recognizing the need for attaining a particular social structure to support democratization, other authors have alternatively suggested that the establishment of democracy could also be seen as a strategic interaction among political elites, middle class intellectuals, and local community or grass-roots organizations leaders. The genesis for such a process, according to Guillermo O'Donnell and Philippe Schmitter, is the "divisions within the authoritarian regime itself, principally along the fluctuating cleavage between hard-liners and soft-liners."¹⁰ The timing for opening up the political system, for example, could be correlated predictably with the performance of authoritarian rulers in meeting socio-economic goals. A protracted economic crisis is going to lead to an intra-elite conflict on one hand, and accumulation of wide spread

¹⁰ Guillermo O'Donnell and Philippe C. Schmitter, Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore, MD: John Hopkins University Press, 1986), p. 19.

dissatisfaction in society on the other.¹¹ If government continuously fails to meet society demands, ultimately its legitimacy will be questioned, and the reign of power needs to be handed over to the opposition.

A historical analysis of capital development in Indonesia is going to show that the social transformation as predicted by Barrington Moore and Dietrich Rueschemeyer et al. has not materialized in Indonesia, in light of the fact that the country has experienced continuous economic growth and its GNP per-capita from 1973 to 1993 increased more than sevenfold.¹² While the Indonesian capital development history is also marked by several intense intra-elite conflicts, and dotted with severe economic crises, neither has these milestone events led to a wider opposition struggle against the authoritarian rule of Suharto.

In the following sections, the Indonesian capital development literature will first be reviewed, and then, a case for supporting this study's argument will be build.

Review of the Indonesian Capital Development Literature

While scholars and analysts agree on the progress that the Indonesian economy made since the days of the late President Sukarno's reign, they differ on the benefits and improvements in

¹¹ Stephan Haggard, and Robert R. Kaufman, The Political Economy of Democratic Transitions (Princeton, NJ: Princeton University Press, 1995), p. 46.

¹² World Bank Tables 1995, (Baltimore: John Hopkins University Press).

the quality of life that capital development has brought to the country. Each brings implicitly different theoretical assumptions to their analysis which consequently yields not only different, but often polarizing interpretations.

In a most current and thorough study on the Indonesian situation, Hal Hill evaluated the performance of diverse but important aspects of the economy, like finance and investment, industrial transformation, and social progress to name a few. Based on this macro-economic analysis the author painted a broad picture of the functioning of the economy as well as New Order's economy successes and failures. As to the overall condition of the economy, he provided the following conclusion:

Since 1966 it (Indonesia) has experienced the first sustained period of economic development in its modern history. In one of the most decisive breaks with the past anywhere, the economic stagnation, accelerating inflation, and declining living standards of the 1960-66 period have given way to the rapid growth, macroeconomic stability, and rising prosperity.¹³

Specifically, Hill praised the significant improvements in basic social conditions such as access of all citizens to primary education, health care, and the availability of better nutrition.

¹³ Hal Hill, The Indonesian Economy Since 1966 (Cambridge, UK: Cambridge University Press, 1996), p. 239.

However, he also noted that this achievement was, to a large degree, made possible by the contribution of windfall gains from high oil prices in the seventies, the depletion of natural resources, particularly in the forestry sector, and the availability of huge foreign loans from a consortium of developed countries.

As to the question of investment efficiency, Hal Hill was more critical of Indonesia. He observed that the incremental capital output ratio (ICOR) was particularly high during the oil boom era from mid-seventies all the way to mid-eighties, and consistently higher relative to Indonesia's other high-growth neighbors in East Asia throughout the New Order reign. This condition "lend further circumstantial support to the notion that serious problems of inefficiency remain," which in his view "can be resolved only through further policy reform."¹⁴

Hill was surprisingly mild in his criticism of the distributional effects of the Indonesian capital development. He highlighted the constancy of the Gini ratio,¹⁵ that remained between a range of 0.32 and 0.38 from 1964 through 1993, to emphasize the New Order's good equity record. Additionally, Hill underscored specific government policies that have been pro-poor, such as channeling significant sums of windfall oil revenues into rural areas, large infrastructure investments to assist poor farmers, and a major emphasis on education. Simultaneously

¹⁴ Ibid., p. 18.

¹⁵ Based on household expenditure data.

however, Hill also recognized several government deficiencies such as the lack of a progressive taxation structure, and the discriminatory practices toward the poor and powerless. On the whole, he concluded, the notion that the wealthy had been the primary beneficiaries of economic growth is a weak argument and was not strongly supported by his empirical data.¹⁶

A noticeable gap in the book was the absence of any systematic treatment of some institutions that have played important roles in the development of the Indonesian economy. For example, the tensions between the economists and patron-client factions within the state, and their impact on macro-economic policy should have received more than a cursory review in an integrated treatment of the Indonesian economy. Also, the role of the army, who performed important functions in the early years of the New Order, and the rising role of the private sector as an "agent of development" were also absent. Lastly, in light of the Pertamina scandal and the damage it brought to the Indonesian economy,¹⁷ there is no systematic treatment on the lack of checks and balances in government policy making and implementation. Understandably, these issues could easily be classified as political economy concerns, a topic which Hill consciously wishes to avoid. Nonetheless, the overarching elements of political

¹⁶ Hal Hill, The Indonesian Economy Since 1966 (Cambridge, UK: Cambridge University Press, 1996), p. 29, 192, 198.

¹⁷ Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," Journal of Southeast Asian Studies, 9, no. 1 (March, 1978), pp. 1-27.

economy are crucial to holistic treatment of the Indonesian economy and its performance for the past three decades.

Steven Schlossstein did a qualitative study on Indonesian development, and he voiced an almost similar conclusion as Hill's. One paragraph in his book read as follows:

In 1968 General Suharto was installed as president. He ushered in an era called 'New Order' democracy, dominated by his own authoritarian rule, supported by the army's dual role as military defenders and technocrats, and based on a political relationship with the Chinese. This triangular partnership has remained in place ever since, bringing a period of unprecedented stability to your¹⁸ country, creating a consistently rising standard of living, and generating a spirit of optimism and hope for the future.¹⁹

There were many praises like this throughout the book. While Schlossstein did look into the political economy realm of Indonesia and addressed several institutional issues, his

¹⁸ In this particular section, Schlossstein was addressing Indonesians as second person, the purpose was, in his words, "to get a more realistic sense of what the world's fifth-most-populous nation might be like."

Steven Schlossstein, Asia's New Little Dragons: The Dynamic Emergence of Indonesia, Thailand, and Malaysia (Chicago, IL: Contemporary Books, 1991), p. 37.

¹⁹ Steven Schlossstein, Asia's New Little Dragons: The Dynamic Emergence of Indonesia, Thailand, and Malaysia (Chicago, IL: Contemporary Books, 1991), p. 39.

analysis is generally bland and lacked the necessary depth. Moreover, it seemed that Schlossstein limited his research by surveying a small cluster of Indonesian elites only. Except for several anecdotal instances, nowhere is an appraisal of the life of middle or lower class Indonesians to be found. Hence, several times his book generated fallacious observations on the quality of life that capital development has brought to the country. For example, at one time Schlossstein quoted from his interviewee the following: "Indonesian young people love factories, no matter how dangerous or dirty or boring."²⁰ In the absence of any critical rejoinder, this misrepresents the real labor situation in Indonesia. Such a statement is not only elitist in tone, but also very demeaning and totally ignorant of the dire labor conditions that exist in the country. In sum, the book presents a sketchy and one-sided description of capital development in Indonesia.

A number of more assertive critics of the Indonesian economy and capital development has concentrated on policy making processes, and played down the economic growth performance that the country has enjoyed. A serious and thoroughly researched work in this genre is Richard Robison's The Rise of Capital.²¹ Robison presented a comprehensive historic analysis of capital development in post-colonial Indonesia, particularly the New

²⁰ Ibid., p. 60.

²¹ Richard Robison, The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), 425 pages.

Order era, and vividly detailed the complex relationships among the state, capital, and society. Robison accomplished this task by first, establishing the authoritarian and independent nature of the state. He viewed the New Order regime as the vehicle for "entrenchment and centralization of authoritarian rule by the military, the appropriation of the state by its officials, and the exclusion of political parties from effective participation in the decision making process."²² Having established these parameters of the New Order state, Robison proceeded to explain economic policy making processes and their implications on the formation of a bourgeoisie class in Indonesia.

Generally, the economic strategy and the policy of the state toward various elements of capital were to pass through three distinct stages. A laissez-faire period lasting from 1965 to 1974, followed by an economic nationalism period lasting from 1975 to 1982. Post-1982, the Indonesian economic policy was characterized by an outward looking strategy seeking to integrate Indonesia into the international division of labor and orienting its investment policies toward Indonesia's comparative advantage.²³

Throughout these stages, Robison demonstrated that the state continuously played a key role in development of the domestic capitalist class. The state provided a conducive political atmosphere for capital accumulation, including political

²² Ibid., p. 105.

²³ Ibid., p. 131, 385, 386.

repression of labor, and subsidization of food and fuel prices. Additionally, the state invested intensively in infrastructure and production, as well as actively resolving internal conflicts within the domestic capitalist class alliances.²⁴

Robison was also critical of the Indonesian government, and argued that this strategy and consequent state-society relationship conditions had become breeding ground for patrimonialism, nepotism, and corruption. In a vacuum of class-based political power, the military and politico bureaucrats have been able to appropriate freely the apparatus of the state. Whereas in Western, industrial capitalist societies, the relationship between state and capital is one in which public policy creates the general conditions for capital accumulation and normally does not discriminate between firms, in Indonesia, the relationship between state and capital is exercised for the most part on the basis of specific and personal relationships between individual capitalists and individual politico-bureaucrats. The latter is able to appropriate the power to allocate a variety of licenses - either for importing material or for obtaining credit, distribute forestry concessions, and award construction and supply contracts.²⁵ The emergence of domestic business groups throughout the New Order period has been largely based upon these alliances ability to gain access to such appropriated concessions. Additionally, Robison reminded his

²⁴ Ibid., p. 374.

²⁵ Ibid., p. 392.

readers, appropriated state powers and their misuses also manifested themselves in a variety of other ways, from simple bribery and smuggling to large-scale swindling of state-corporations funds.²⁶

One of Robison's controversial finding is the ascendance of a domestic capitalist class in the Indonesian economy. At one point, for example, he stated the following:

By the end of the 1970s the picture of domestic capital as weak, dependent and subservient could no longer be sustained. Nurtured by the state, and spearheaded by several major business conglomerates, domestic capital had gained a sizeable hold on investment in a variety of sectors, constituting a new and significant focus of socio-economic power.²⁷

But Robison was vague as to the exact identity and strength of this bourgeoisie faction, and the clearest indication he gave was the listing of a limited number of prominent names in the Indonesian business circle.²⁸ Moreover, since this domestic

²⁶ Ibid., p. 392.

²⁷ Ibid., p. 176.

²⁸ There were perhaps 75 names mentioned, including the Chinese. To put this in perspective, remember that one half of one percent of the Indonesian adult population would amount to about 500,000 people. Hence, even if Indonesian domestic capitalists totalled 1000 individuals, such a tiny sliver of Indonesian society hardly represents a "class."

Jeffrey Winters, "Indonesia: The Rise of Capital: A Review Essay," Indonesia, 45 (April, 1988), p. 114.

capital comprised a coalition of former military members, former politico bureaucrats, and largely, a Chinese group of big capitalists, such a configuration hardly represents a true class. Although its members might be closely allied for a particular purpose, they have very different socio-economic interests, different sources of wealth and power, little sense of class solidarity, and nothing similar to a capitalist ideology. Therefore, it is questionable if the Indonesian bourgeoisie truly forms a capital owning class and represents a viable political power for the future (an issue that will be explored in greater detail in this study). Despite this, Robison asserted that domestic capital had the potential to "regularize" the Indonesian system. This notion was strongly implied in the following paragraph from his book:

Another mitigating factor (for the survival of Indonesian capitalists) is the very interest of the capitalist class, in Indonesia as elsewhere, to sanctify private property and, to an increasing degree, to regularize the process of accumulation with a legal and predictable framework. Despite the fact that arbitrary political action has been a central feature in the establishment of business groups, this is likely to become less acceptable as the capitalist class entrenches itself.²⁹

²⁹ Richard Robison, The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 349.

In sum, Richard Robison book is an excellent source for obtaining insight into the complexities of the Indonesian capital formation. One can learn a tremendous amount of information about the fits and starts of local capitalists for the last fifty years. However, his contention that a significant and substantial domestic bourgeoisie has formed is somewhat disappointing.

Yoshihara Kunio in his book titled The Rise of Ersatz Capitalism in Southeast Asia, undertook a more focused approach and concentrated his research on state - capital relationships in Southeast Asia.³⁰ Specifically on Indonesia, he argues that its capitalism is ersatz not because the Indonesian economy is dominated by foreign elements, but for reasons that are domestic in nature. To Muslims and other xenophobic nationalists, it is ersatz because it is dominated by Chinese Indonesian capitalists, to laissez-faire economists it is ersatz because it is dominated by rent-seekers.³¹

Similar to Robison's assertion, Kunio agrees that the state role in Indonesia's industrialization had been extensive and the state is dominant in capital-intensive upstream industries. As a result, a high cost industry selling low quality products to the

³⁰ Yoshihara Kunio, The Rise of Ersatz Capitalism in Southeast Asia (Singapore: Oxford University Press, 1988), 297 pages.

³¹ Ibid., p. 3.

downstream sector has emerged.³²

On the other hand, industrialization by the private sector was initiated through import-substitution policies, and these processes, according to Kunio, has yielded a distinct class of traders who transformed themselves into industrial capitalists. Technology was acquired through them acting as compradores for technology oriented MNCs or through turn-key project arrangements. Therefore, Indonesia's manufacturing industries do not have the necessary export capabilities, and they have not reached efficiency levels that are sufficient for competing in an international marketplace.³³

For example, when Suharto came to power, selected Chinese entrepreneurs, like Liem Sioe Liong, were given preferential treatment to launch a particular industry. Liem started the cement business only in 1975, and by 1985 he was already owner of the biggest cement complex in Asia involving an investment of around one billion dollars with an annual capacity of 7.7 million tons. The key to his success was easy access to state banks funding. When Liem's "Indocement" plants were suffering from overcapacity, instead of letting market forces take care of the business, the government interfered by granting him relief on his interest payments and buying up 35% of Indocement equity.³⁴

Like Robison, Kunio believed that the authoritarian nature of

³² Ibid., p. 108.

³³ Ibid., p. 111-18.

³⁴ Ibid., p. 48.

the Indonesian government as well as its independence from societal constraints were responsible for the fertile ground on which rent-seeking practices bloomed. In addition, the absence of a real national security threat to the country and "easy" income from the sale of natural resources, enabled the government to dispose of economic resources or intervene in the economy with almost total impunity. Hence, Suharto and other military officers have ample opportunities to create a pervasive network of rent-seekers among their political allies and personal friends.³⁵

In addition to this kind of state - capital relationship, Yoshihara Kunio explored in greater depth the political implications of this state of affairs. He basically disagrees with Robison's contention about the rise of domestic capital in Indonesia. The Chinese, for example, a group that largely represents domestic capital, has never historically been integrated fully into the indigenous society. Consequently, major groups like Muslims will never accept their participation politically. The Indonesian military on the other hand, the only institution that monopolizes power, feels no urgency to change the situation either. As long as it is the Chinese who dominates Indonesia capitalism, the military need not fear that they may have to share power with them and eventually hand it over.³⁶

A number of dependency theory proponents attributed the

³⁵ Ibid., p. 87.

³⁶ Ibid., p. 87, 91.

economic successes largely to foreign aid or investments, and the links established between domestic capitalists and the multinationals.³⁷ Foreign interests and aid are treated homogeneously, and are assumed to be the hidden power behind the scenes. Rex Mortimer, for example, focused on the authoritarian and militaristic aspects of the regime in power, and characterized it as no more than a puppet state being manipulated by foreign capital interests. Such analysis treats the relationships among foreign capital, the state, and domestic capital interests as uniform. It views state policy responses as answering to the interests of foreign capital controllers, and a select domestic bourgeoisie class.

A number of criticisms on the Indonesian capital development literature is in order here. Capital development in Indonesia has been identified and analyzed from a macro-economy discipline as well as a political economy discipline. Additionally, different authors depending on their particular interest have viewed it from several different and unique perspectives. Except for Richard Robison's The Rise of Capital, none, however, has taken a more in-depth observation as to the effects that capital development has brought to state-society relations and the

³⁷ Richard Tanter, "Oil, IGGI, and US Hegemony: Global Pre-Conditions" State and Civil Society in Indonesia, ed. Arief Budiman (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), pp. 51-98.

Rex Mortimer (ed.), Show Case State: The Illusion of Indonesia's Accelerated Modernization (Sydney, AU: Angus and Robertson, 1973), 164 pages.

formation of classes in the country. For example, the combination of an authoritarian regime and a state-driven development process which was facilitated by oil money and foreign aid, is argued to have been responsible for a public policy that, in its spirit at least, is directed more at fulfilling factional-interests need, and less motivated by concerns for the larger public welfare. Hence, this condition could have also been responsible for the increasing gap in wealth distribution among the different income levels in society. This latter notion was rejected by Hal Hill and not explored more fully by other authors. Arief Budiman, a prominent Indonesian political activist, felt that a relatively more equal distribution of wealth has not been achieved in Indonesia. To support his position, Budiman cited data that show Gini ratios for the period 1961-80 with larger variance than what Hal Hill observed. Also, the data indicate that while in 1961 the percentage of income received by the bottom 40% of the population was still 25.3% of the national income, in 1980 this figure went down to 10.4%.³⁸ Thus, the mere growth rate of a

³⁸ Arief Budiman cited a study done by Nuriman Hasibuan, which instead of utilizing expenditure data, as was the case in Hal Hill's study, used income data.

Indonesian expenditure statistics are most likely highly unreliable because they suffer from several deficiencies, the most glaring one being the incorrect measures of spending itself.

Arief Budiman, "The Emergence of the Bureaucratic Capitalist State in Indonesia" Reflections on Development in Southeast Asia, ed. Lim Teck Ghee (Singapore: Institute of Southeast Asian Studies, 1988), p. 125.

Nuriman Hasibuan, "Pembagian Tingkat Penghasilan Tenaga Kerja pada Industri-Industri Oligopolistik di Indonesia," [Income

country's economy is no decisive indicator of its societal health or its capacity to resolve the issues which agitate and bedevil its people.

It is undeniable that some measure of growth is vital for countries with burgeoning populations and poorly mobilized resources. But for that growth to attain a true developmental character, it must be managed in such a manner so as to improve the country's capability of innovating successfully on the basis of national resources and skills.³⁹ Mere increases in inputs such as state's huge investments in infrastructure and production, without increases in efficiency, are going to run into diminishing returns in the long haul. Input driven growth, Paul Krugman argued, has inevitably limited long-run growth capabilities.⁴⁰ Ultimately, it is improvements in efficiency of the economy as whole, and more creative approaches to development that could fulfill the needs of people and create a more equitable wealth distribution.

Methodologically, studies that utilize a historical approach

Distribution of the Working Force in the Oligopoly Industries in Indonesia], (Jogyakarta: Gajah Mada University, Ph D. Dissertation, 1984).

Jeffrey Winters, "Suharto's Indonesia: Prosperity and Freedom for the Few," Current History, (December, 1995), p. 422.

³⁹ Rex Mortimer, "Indonesia: Growth or Development," Showcase State: The Illusion of Indonesia's Accelerated Modernization, ed. Rex Mortimer (Sydney: Angus and Robertson, 1973), p. 52.

⁴⁰ Paul Krugman, "The Myth of Asia's Miracle," Foreign Affairs (November - December, 1994), p. 67.

to capital development and identify key junctures in the capital development of Indonesia are scarce. The history of Indonesian economic policy is a much more multifarious story commensurate with the rapid economic growth attained and the oil boom of the seventies. While it is true that at least from 1965 through 1974 the economic behavior of the Indonesian regime resembles some, but not all, characteristics of a dependent country, gradually the relationship between the state and capital evolved and became more complex. Therefore the notion that Indonesia is a mere puppet state manipulated by foreign interests could be misleading.

Dependency theorists have often carried over theoretical generalizations from the Latin American experiences to an Indonesian context where a different historical and structural background exist.⁴¹ In Indonesia, for example, the issue of state autonomy and state intervention have gone far beyond what has so far been observed by dependency theory through Latin American cases. Since Indonesia's capital development is a unique process, to obtain appropriate insights from these experiences requires a historical-structural approach or what Peter Evans called a "Cardosian" approach, where the emphasis is not on simply applying dependency theory propositions but also on

⁴¹ Jamie Mackie and Andrew MacIntyre, "Politics," Indonesia's New Order: The Dynamics of Socio-economic Transformation, ed. Hal Hill (Honolulu, HA: University of Hawaii Press, 1994), p. 7.

expanding its theoretical imagination.⁴²

The story of the Indonesian development is a process through which the state has woven a complex set of relationships with various important actors, from foreign capital and selected Chinese Indonesian capitalists, to indigenous bourgeoisie, politically powerful Muslim groups, as well as the rural poor masses. Many of the theories, liberal and Marxist, are not adequate to explain these intricate relationships. They are not equipped to accommodate the vast constellation of social agents and structures surrounding it, much less to assess and predict the influence that capital development in Indonesia has exercised over the emerging political structure of the country. Hence, an eclectic but comprehensive framework is needed to contain these complexities.

The Argument

This study will attempt to push the research on Indonesian capital development further by looking at historically rooted events and policy making measures, and analyzing them in depth as to the implications they had brought upon the state-society relationship in Indonesia.

The economic policies of the Suharto regime have for the larger part provided tremendous capital accumulation

⁴² Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americanists," The Political Economy of the New Asian Industrialization, ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press), p. 223.

opportunities for a few upper-elites in the country, and in the process, they had sacrificed the objective of attaining an equitable distribution of wealth among the people. Awash with huge financial resources, the regime has pursued economic policies that were more often detrimental to the objective of creating a free, vibrant, and competitive market. Instead the policies were directed at strengthening a patrimonial network, and in the process personally enriching a small group of elites. They have, for example, helped the large corporations as well as powerful and wealthy individuals far more than small businesses and petty traders.⁴³

It was particularly the oil boom period from 1974 to 1982 that provided the regime with ample opportunities for pursuing a fairer process of economic development. Instead, policies then reflects more the upholding of patron-client economic interests than more sensible free market policies.⁴⁴ In turn,

⁴³ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 80.

⁴⁴ It is hardly surprising that recurringly a government related financial scandal surfaces in public. When they do become news, they always reveal the collusion between state-officials and business associates.

The International Corruption Ranking, a joint project between Transparency International and Göttingen University, has consistently found that Indonesia is being perceived as a country inflicted by a high degree of corruption. In 1996, Indonesia ranked 45th from among 54 countries, and among East and Southeast Asian countries it found itself at the bottom rank. Singapore (7), Japan (17), and Hongkong (18), in that particular order, were found to be the cleaner countries of Asia.

A World Bank representative in Jakarta confided personally to Jeffrey Winters that about a third of the Bank's disbursements to

implementation of these policies has rewarded the Suharto regime with possession of an extremely strong authoritarian political system to the degree that important political groupings and constituents throughout the country have become dependent on the state for their survival. As Jamie Mackie described the situation: "the political system that has developed since that time (the beginning of the oil boom) has been characterized by an unprecedented strengthening of the financial power of the state, and a considerable weakening of the political system."⁴⁵

Therefore it is important, within the context of this study, to understand the nature of the Indonesian state that had emerged since the New Order came to power in 1965. Weber, for example, provided us with a general and classic understanding of the state as a set of administrative, legal, bureaucratic, and coercive systems that structure relationships between public authority and

Indonesia leaks out of the system and disappears.

Hence, there is plenty of circumstantial evidence that capital development in Indonesia was stunted by a massive outflow of resources from the state through theft and corruption.

The World Bank, "Corruption: An International Comparison," Transition, 7, No. 7-8 (July-August, 1996).

Media Indonesia, "Indonesia Terkorup di Kawasan Asia," [Indonesia is the Most Corrupt in Asia], [<http://www.mediaindo.co.id/publik/9703/31/MI01-04.31.html>], March 31, 1997.

Jeffrey Winters, "Suharto's Indonesia: Prosperity and Freedom for the Few," Current History, (December, 1995), p. 422.

⁴⁵ Jamie Mackie, "Indonesia: Economic Growth and Depoliticization," Driven by Growth: Political Change in the Asia-Pacific Region, ed. James W. Morley (Armonk, NY: M. E. Sharpe Inc., 1993), pp. 79-80.

civil society.⁴⁶ Recognizing complexity of the state-society relationship, Dietrich Rueschemeyer and Peter Evans viewed the state as a conjunction among conflicting pacts of domination, and simultaneously as a guardian of universal interests, and an autonomous corporate unit.⁴⁷

The Indonesian state does not fit easily with currently recognized categories of political regimes. The state is not dominated by landowning and capitalist families as has traditionally been the case for Latin America and the Philippines. Neither is the state controlled by a major single party as often found in fascist dictatorships. It is also not identical to the political structure of powerful industrializing states like Japan, South Korea, Taiwan, or Singapore. In these states, although there is a strong bureaucracy, their existence is cast in a stronger legal-rational framework. In Indonesia, the state that emerged has been called an "authoritarian-corporatist" state by Richard Robison.⁴⁸

⁴⁶ For Weber's conception and articulation of the state see:

Max Weber (edited by Guenther Roth and Claus Wittich), Economy and Society, Volume 2 & 3 (Berkeley, CA: University of California Press, 1978).

⁴⁷ Dietrich Rueschemeyer and Peter B. Evans, "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention," Bringing the State Back in, eds. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge, UK: Cambridge University Press, 1985), p. 47, 48.

⁴⁸ Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s, eds. Kevin Hewison, Richard Robison, and Garry Rodan (Sydney, AU: Allen & Unwin, 1993), p. 43-45.

The Indonesian state is corporatist, because the language of the New Order insists on maintaining a particular common national good.⁴⁹ Bureaucrats, for example, so often exhorted the virtues of "economic development through stability, order, and security" (pembangunan ekonomi yang membutuhkan stabilitas, keteraturan, dan keamanan). The New Order regime has organized the "management" of formally recognized political activities through a number of functional units rather than competing interests.⁵⁰ Indonesian corporatism is therefore less concerned with interest representation than with state control and social discipline. As Robison described it:

⁴⁹ Philippe Schmitter, ~~for example~~, defined corporatism as follows:

Corporatism can be defined as a system of interest representation in which the constituent units are organized into limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.

Phillipe C. Schmitter, "Still the Century of Corporatism," Trends toward Corporatist Intermediation, eds. Phillippe C. Schmitter and Gerhard Lehmbruch (Beverly Hills, CA: Sage Publications, 1979), p. 13.

⁵⁰ An important factor that significantly eased this process has been the thorough eradication of communists during the 1965 conflict.

It is argued here that the mass arrests and genocide have resulted in a climate of constant fear among the populace, particularly in rural areas, and the removal of what could have been a potentially vibrant opposition force to the New Order rule. The social vacuum has further freed the state from the requirement of having to seek popular support from a broader based constituency in the country.

The non competitive political organizations within which political activity is confined do not constitute a classical tripartite bargaining arrangement between labour, capital, and the state but, rather a mechanism for domination by an authoritarian regime.⁵¹

Indeed, within this type of political system and state apparatus, Suharto has personally been able to incrementally push the envelope even further, and accumulate tremendous powers for himself. The concentration of power has become so large to the degree that Suharto managed to exclude the original and primary constituent of the New Order itself, the army, from key sources of patronage and economic influence during the latter eighties and early nineties.⁵² It is anticipated that whoever replaces him will inherit only a fraction of his real political power.

Socially, while development has made the middle and subordinate classes prosper to a certain degree, the class changes were not large enough to affect the balance of class power in a manner that would have been conducive for the initiation of a democratization process.

It is this economic development path and outcome that could explain why, after a period of steady economic growth lasting

⁵¹ Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s, eds. Kevin Hewison, Richard Robison, and Garry Rodan (Sydney, AU: Allen & Unwin, 1993), p. 45.

⁵² In 1994, when Suharto banned several major news magazines - Tempo, Editor, Detik - with relative ease, Adnan Buyung Nasution, a prominent lawyer in Indonesia borrowed the term "l'etat c'est moi" to satirize Suharto.

more than three decades, has neither the authoritarian political system in Indonesia budge, nor has democratization become a reality.

In the following chapters, this study is going to trace back the historical origins of Indonesia's state-society relationship, flesh out major events during the oil boom period, and put them in a proper capital development context. Lastly, this study will assess the implications these historical events have on the current political and social life in Indonesia.

Chapter Two

Pre-1974 Capitalism

When Indonesia emerged as an independent nation at the end of 1949 there was a widely shared feeling of euphoria among Indonesians from almost all walks of life. From the leaders of the revolution to small intellectual groups, from large masses of poor peasants and laborers to middle class teachers, everybody had high hopes that independence would bring people better conditions of living compared to the exploitative nature of the previous colonial times. Indeed, the democratic period from 1950 to 1957 brought relative calm to the Indonesian society,¹ and economic conditions were better compared to the Japanese occupation period and the revolutionary years.² But the situation was soon marred by political instability, and increasing frustration among different interest groups in society when their aspirations which originated from the previous revolutionary period did not materialize. Experimentation with democratic institutions and practices immediately brought out

¹ Herbert Feith in an almost nostalgic tone recalled the period as follows:

I first arrived in Indonesia in July 1951 and spent over four of the next six years there. I had a wonderful time in those years and so I loved Indonesia of the liberal period.

Herbert Feith, "Constitutional Democracy: How well did it Function," Democracy in Indonesia: 1950s and 1990s, ed. David Bourchier and John Legge (Clayton, AU: Monash University, Center of Southeast Asian Studies, 1994), p. 17.

² M. C. Ricklefs, A History of Modern Indonesia since c. 1300 (Stanford, CA: Stanford University Press, 1993), p. 239.

sharp differences in ideology among the political parties, disagreements on public policy direction between pragmatic administrators and revolutionary utopians, and different priorities over resource allocations between army factions and politicians. Numerous cabinets were repeatedly formed but they fell before having a chance to fully implement their respective programs and agendas.

In the economic field, attempts to reform and restructure the Dutch-dominated economic system into a more indigenous friendly system failed miserably. While it succeeded in reducing Dutch capital influence to a certain degree, nonetheless, the vacuum left was immediately filled by Chinese Indonesian capital interests, thus reinforcing the position of this latter ethnic group considerably. Instead of nurturing an emerging indigenous bourgeoisie through sound economic policies, as policy makers and politicians had hoped for, the state was witnessing the beginnings of a patrimonial structure emerging from within its own ranks. Politically-appointed executives started to collude with a small group of party affiliated businessmen, Chinese as well as indigenous.

These events led to an increasingly conflictual situation, and sadly, provided an opportunity for President Sukarno and the army to abolish all democratic institutions and replace them with an authoritarian system. The authoritarian period lasted from 1958 to 1965, and known by Indonesians as the "Guided Democracy" period. What on the surface seemed like a peaceful coalition

among Sukarno, his left wing supporters, and the army, turned out to be a brewing conflict between army officers and the Indonesian Communist Party (PKI). What was meant as a socialist economic program emerged as a state led economy that presided over a severe erosion of existing capital stock in the country. Intensified political conflict combined with economic deterioration reached its peak in 1965, and further led to the downfall of Sukarno.

The significantly increased political powers enjoyed by the army during the Guided Democracy period simultaneously gave the military an opening to play a larger and more decisive role in economic and capital related matters. Particularly the nationalization and seizure of Dutch capital properties in 1957 brought vast new economic opportunities, and provided the army with a strong foothold in strategic capital entities of the country. Therefore, during the subsequent military backed "New Order" regime rule, the role of the army in capital formation processes was to a large degree simply a matter of further perfection.

Throughout this historical period, incrementally, the Indonesian state evolved from a democratic government representing different and changing interests in society toward an authoritarian and increasingly autonomous state with no particular class interest representation whatsoever. The authoritarian state that emerged was characterized by politico-bureaucrats, constituting a combination of civilians and military

officers, who created their own state party as its instrument. The source of political power and political leadership lies within the state apparatus itself rather than the larger confines of civil society. Under these conditions it is possible for political authority to be appropriated and integrated by the officials of the state.³

There had been three related processes that led to an Indonesian state of such nature. First, the state involvement in economic policies and capital formation transformed from rational and legal interactions such as basic infrastructure provisions and maintaining an even economic playing field, toward a more entrenched patrimonial system. Secondly, authoritarian rule by the military gradually became more dominant and centralized around the state. Lastly, political parties were systematically excluded from effective participation in the decision making process.

When Sukarno fell from power in the late sixties, middle class liberals and Muslim petty bourgeoisie held high hopes for a return to a democratic system of government. This expectation proved to be short lived, and instead his successor, General Suharto, steered the "New Order" further away from democracy toward a regime that possesses a highly sophisticated state authority over the civil society.

³ Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s: Authoritarianism, Democracy, and Capitalism, ed. Kevin Howison, Richard Robison, and Garry Rodan (Sydney, AU: Allen Unwin, 1993), p. 45.

The Initial Conditions of the Republic

After a prolonged revolutionary struggle that lasted from 1945 to 1949, the Dutch government transferred sovereignty to Indonesia on December 27, 1949. The Republic of the United States of Indonesia (RUSI) was created and its method of governance was based on a parliamentary democracy.⁴

The colonial legacy left an economy that was wholly created to serve Dutch economic interests. Since late 19th century the Dutch East Indies colony had evolved into a world class exporter of raw materials to markets primarily in Holland, and secondarily in both Europe and the United States. The Dutch had invested heavily in sugar, rubber plantations, and controlled the mineral and oil wealth of Indonesia. A Dutch shipping company, Koninklijke Paketvaart Maatschappij (KPM) enjoyed total monopoly of inter-island routes in the archipelago.⁵

⁴ In late July 1950 an amendment draft to the 1949 RUSI Constitution for the formation of a unitary state was presented to parliament. It was ratified with a large majority vote. The following August 17, 1950, a new "Republic of Indonesia" (RI) was in existence. Politically, the new state represented a triumph for the nationalism of the Revolution, because the independence proclamation declared in 1945 called for a unitary republic that constitutes the whole of the former Dutch East Indies Colony.

Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 99.

⁵ From a total private investment of 3,500 million guilders in 1939, approximately two-thirds were Dutch, and 850 million belong either to the British, Americans, or Belgians.

Vishal Singh, "The Colonial Background of Indonesian Politics," International Studies, 15, No. 1 (January - March 1976), p. 14.

The penetration of capitalism had eroded the old and traditional political and class structures of Indonesia, but had not replaced them with well defined classes of bourgeoisie and proletariat as traditionally had been the case in Western countries. The domestic bourgeoisie had remained primarily a merchant bourgeoisie torn by serious political, social, and economic conflicts.⁶ On one hand, the financially powerful Chinese controlled most of the agrarian trade, light manufacturing, and the transportation sector.⁷ Politically, the Chinese had never been able to establish themselves as a national bourgeoisie or as a ruling class. The Chinese had not been accepted by the majority of indigenous Indonesians as having a public political role, and were constantly subjected to periodic demonstrations of hostility, particularly from the Muslim merchant bourgeoisie.⁸

⁶ The dominant element of the capitalist class in Indonesia at the end of the colonial period was of course the Dutch. Their capital was tied to an estate economy and the Dutch colonial government had no intention to restructure Indonesian capitalism into an industrial economy.

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 29.

⁷ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 29.

⁸ In today Indonesia, between 50 to 200 Chinese Indonesians can be categorized as "tycoons" because of their tremendous wealth (they control between 60 to 80% of domestic capital). However, the majority of approximately five million Chinese in Indonesia belongs to a middle class category. Still, perception often works stronger than reality, and violence against the Chinese in Indonesia takes place fairly regularly throughout the last two centuries. In fact, leaders often resort to the old Dutch tactic of unleashing society's deep resentment

On the other hand, the indigenous merchant bourgeoisie, majority of whom were Muslim traders, was locked in commodity production and small scale trade. During the last years of Dutch colonial rule they were rapidly overtaken by medium and large scale capitalist production. Their efforts at organizing and defending their interests failed since they constituted a backward and declining production system. The struggle was not characterized by a rising bourgeoisie bent on sweeping away feudal restraints, but a group of declining merchant capitalists attempting to stop the development of more advanced forms of capitalist production, and fighting against competitors with superior capital resources.⁹

Politically, the leaders of the new Republic had attained a consensus that the most desirable form of government was to be a democratic parliamentary system.¹⁰ The urban secular

on this minority as a way of reminding the Chinese of their precarious position.

Jamie Mackie, "Towkays and Tycoons: the Chinese in Indonesian Economic Life in the 1920s and 1980s," Symposium on the Role of the Indonesian Chinese in Shaping Modern Indonesian Life (Ithaca, NY: Cornell University, Southeast Asian Studies, July 13-15, 1990), p. 2.

⁹ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 27.

¹⁰ Herbert Feith argued that there were several reasons, external and internal, that compelled Indonesian leaders to commit themselves to a Western type of constitutional democracy although its underlying principles were not compatible with the prevailing body of the political values and perceptions then. Externally, there was a need to impress the international community that Indonesians are capable to govern themselves, hence it was expedient for Indonesia to adopt Western constitutional forms. Internally, there was no alternative

nationalists and the Islamic parties were thought best suited to create one. Next to the military and armed militias, they had played a primary role during the revolution. In retrospect, however, there were very few foundations upon which representative democracy could be built. The country inherited the traditions, assumptions, and legal structure of a police state from both the Dutch and the Japanese.¹¹ The masses were mostly poor, illiterate, accustomed to paternalistic rule, and spread over an enormously large archipelago. Under these circumstances, the people were hardly in a position to force politicians in Jakarta to account for their performance. The politically-informed were only a tiny layer of urban society and Jakarta based politicians. The majority of this group often had a Dutch education and were elitist in their views. They were paternalistic toward people from other subordinate classes, even to the extent of being snobbish toward those who, for instance, did not possess the Dutch language fluency. They had little commitment to grass roots politicking, and under these circumstances it is hardly surprising that democracy did not

constitutional system and arrangement on which the political elite of that time could agree on. In fact, since November 1945 under the tutelage of Syahrir, a prominent anti-Japanese underground leader (who later became chairman of the Indonesian Socialist Party - PSI), the Republic has adopted a parliamentary system that functioned fairly well throughout the revolution.

Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 43-44.

¹¹ Merle Calvin Ricklefs, A History of Modern Indonesia since c. 1300 (Stanford, CA: Stanford University Press, 1993), p. 237.

flourish. Therefore, although quite a number of parties existed then, only a few had a significant number of followers.

Nonetheless, it should be noted that the years 1950-57 still stands as the most free period of Indonesia to this day.

The largest party was the Consultative Council of Indonesian Muslims (Majlis Syuro Muslimin Indonesia - Masyumi) who represented Islamic political interests. This party avoided religious doctrinaire stances and never officially sanctioned the idea of an Islamic state. The Indonesian Nationalist Party (Partai Nasional Indonesia - PNI) was the second largest and had considerable appeal to "nominal"¹² Muslim communities. This party, traditionally perceived as the party of Sukarno, was the main counterbalance to Islamic political pretensions. The Indonesian Communist Party (Partai Komunis Indonesia - PKI) which was decimated during an uprising in 1948 but not outlawed, was on the verge of making a spectacular comeback then.

Next to these three large parties were many smaller parties. Most notable was the Indonesian Socialist Party (Partai Sosialis Indonesia - PSI) which was backed by intellectuals and prominent figures from the army central command. The Christian minority

¹² Nominal Moslems (Islam "abangan" - literally meaning the red ones) represents a major social and cultural stream in twentieth century Indonesia. Their adherence to Islam is seldom more than a formal, or nominal commitment. They tend to be mystical in their religious ideas, and relatively unconcerned about the demanding ritual obligations of Islam. They are culturally committed to Hinduism or Javanese art forms which are largely pre-Islamic in origin.

M. C. Ricklefs, A History of Modern Indonesia since c. 1300, (Stanford, CA: Stanford University Press, 1993), p. 163-164.

from both denominations, Protestants and Catholics, were represented by the Indonesian Christian Party (Partai Kristen Indonesia - Parkindo) and the Catholic Party (Partai Katolik) respectively.

At an individual level, generally the leaders of that time constituted two groups with different orientations. Herbert Feith distinguishes them as the administrators and the solidarity makers.¹³ The administrators were preoccupied almost entirely with the practical problems of transition. They emphasized the need for legality and the maintenance of controls, the need for firm leadership and responsible politics, and the dangers of expecting too much from the new independence. Solidarity makers tended to be concerned with images of a distant utopia. Political leaders of the solidarity maker group, including the President, made numerous statements about the Indonesia of the future, to which the Revolution was a bridge, the Indonesia of prosperity, justice, harmony, and strength.¹⁴ Hence, there was

¹³ Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 33, 34.

¹⁴ Several authors assigned different labels for these groups of politicians, but their basic argument by and large have remained the same. For example, John Sutter simply refers them as the "Masyumi" group vs. the "PNI" group, Benjamin Higgins used the terms "economics or development" minded vs. "history" minded, and John Meek "economic development" vs. "Indonesianization."

John O. Sutter, Indonesianisasi, Politics in a Changing Economy, 1940-1955 (Ithaca, NY: Data Paper # 36, Department of Far Eastern Studies, Southeast Asia Program, Cornell University, 1959).

Benyamin Higgins, Indonesia's Economic Stabilization and

a lack of middle range goals, as Herbert Feith noted:

Thus there existed what might be called a bifurcation of attitudes toward the future. Virtually none of the leaders of 1949 were attempting to link long term ends with short term administrative programs, ideological appeals with the solution of practical problems. Sukarno fashioned symbols and reiterated the messianic demands and promises of the Revolution. Hatta (the vice president) made administrative policy and urged realism. The two approaches were neither fused nor bridged.¹⁵

Nevertheless, in spite of the impediments to democracy and differences in orientation, having gone through a victorious struggle for independence the country was blanketed with euphoria and a high degree of optimism. It was with such a backdrop that the leaders of the Republic perceived that their primary task after independence was one of nation building. The objective was to create a nation where people were unified by a common language, a common outlook, and an enthusiastic severance from

Development (New York: Institute of Pacific Relations, 1957, p. 103.

John Paul Meek, The Government and Economic Development in Indonesia, 1950-54 (Charlottesville, VA: Ph D. thesis, University of Virginia, 1956), p. 185.

¹⁵ Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 34.

outworn traditions and loyalties. This motivation was viewed almost as a noblesse oblige responsibility of the leadership then.¹⁶ Ideologically, they revered collectivism and socialism, while detesting individualism and liberalism. Although these terms were not always used in the same sense as in the West, it is significant that collectivism and socialism had almost always positive connotations attached to them, while the latter expressions had negative associations. Hence, it is important to note that the Indonesian society of the post-revolutionary period was in a certain sense very socialistic, and the people perceived that their economy was in need of reforms that emphasize the principles of family relationship.¹⁷

While the parties were unreservedly for democracy and a democratic government appeared in form, the executors did not perceive this symbol in exactly identical terms as their contemporaries in the West. There were references to equality, freedom of the press, and freedom of assembly. The need for exercising democracy in the economic and social fields were also affirmed. Moreover, it was generally assumed that democracy implies parliament, parties, and elections. But democracy was

¹⁶ Ibid., p. 34-35.

¹⁷ J. A. C. Mackie, "The Indonesian Economy, 1950-1963," The Economy of Indonesia: Selected Readings, ed. Bruce Glassburner (Ithaca, NY: Cornell University Press, 1971), p. 44, 45.

Bruce Glassburner, "Economic Policy Making in Indonesia, 1950-1957," The Economy of Indonesia: Selected Readings, ed. Bruce Glassburner (Ithaca, NY: Cornell University Press, 1971), p. 72.

not viewed as a mechanism to voice different interests in society, neither was it thought of as a means to find a compromise, nor as a vehicle to exercise checks and balances on government powers. Broadly, rather than viewing democracy as the exercise of people's sovereignty over government, Indonesians saw democracy as an entity that represents "peopleness" (kerakyatan) - a government that is close to the people. Consequently, representation was almost entirely absent from the Indonesian ideas of democracy. Rather than fulfilling representative functions, parliamentary institutions were to serve the interests of the people.¹⁸ People in this sense were traditionally seen as an undifferentiated mass whose interests are overwhelmingly common rather than mutually antagonistic. Thus democracy that was so widely acclaimed then had only tenuous links with the Western-type constitutional system of governance.

The Initial Formation of a Patrimonial System (1950 - 1957)

In particular, it was the inherited colonial economic system that provided the rationale for the new Republic to advance policies that would be friendly toward the indigenous merchant bourgeoisie.¹⁹ Politicians from both nationalist and Muslim

¹⁸ Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 35,36.

¹⁹ During the revolution almost all leaders have written on economic policy and have argued for a transition from a colonial to a genuinely national economy. Three broad themes of what economic nationalization means emerged from these writings:

parties envisioned the development of a nascent national bourgeoisie from among the ranks of Muslim merchants and other petty traders. It was assumed that this sector and its constituents will provide the basis for capital accumulation that will enable a closure of the gap between petty traders and industrial capitalist production.²⁰

While each major party committed themselves to these broad objectives of economic nationalism, each interpreted them differently and envisioned different programs to pursue this goal. The Nationalist Party (PNI) conceived cooperatives to perform a dominant role, while the Muslim party (Masyumi) was sympathetic to private capital provided it was in Indonesian hands. The Communist Party (PKI) stressed state ownership as the means to restructure the economy. Therefore, it is hardly surprising that from 1950 to 1957, when parliamentary democracy was given a trial, different prescriptions were tried in turns and the intensity of advocacy for indigenization of capital was

firstly, diversification, or elimination of the extreme dependence on raw material/commodities exports, secondly, economic development and prosperity, and lastly, transfer of control and management of economic enterprises from foreign, Western, and Chinese, to Indonesian hands.

Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 374.

²⁰ J. A. C. Mackie, "The Indonesian Economy, 1950-1963," The Economy of Indonesia: Selected Readings, ed. Bruce Glassburner (Ithaca, NY: Cornell University Press, 1971), p. 44.

to a large extent dependent on which party was in power.²¹ A total of seven cabinets existed during the eight year period, each experiencing a fall and consequently failed to implement their respective programs. Although all national leaders unanimously professed their commitment to economic nationalism, yet as Bruce Glassburner concluded, "no cabinet undertook a major program of economic re-ordering."²² Consequently, the economic policies pursued lacked continuity, were devoid of any definiteness of purpose, and caused a persistent economic instability.

Nevertheless, the burden of economic nationalization, such as it was, fell upon the state. Profound state intervention in the

²¹ Indigenization measures during that period could be differentiated according to the degree of government intervention required for their implementation. Conservatives preferred to minimize state interference, while they called for subsidization of the indigenous they simultaneously refrain from imposing restrictions on foreign and Chinese businesses. Progressive politicians argues for direct market intervention measures that benefit indigenous businesses most often at the expense of other interest groups. The most extreme form was outright nationalization of foreign enterprises.

Initially, indigenization was carried out at a relatively slow and benign pace, it was only during the fifth cabinet of Ali Sastroamidjojo that indigenization was moved at an accelerated and more intensive speed.

Ralph Anspach, "Indonesia," Underdevelopment and Economic Nationalism in Southeast Asia, ed. Frank H. Golay, Ralph Anspach, M. Ruth Pfanner, and Eliezer B. Ayal (Ithaca, NY: Cornell University Press, 1969), p. 123.

Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 374.

²² B Glassburner, "Economic Policy Making in Indonesia, 1950-57," The Economy of Indonesia: Selected Readings, ed. B. Glassburner (Ithaca, NY: Cornell University Press, 1971), p. 82.

economy was not only caused by the dominance of left-leaning ideas that demands a crucial role for the state in the economy, but was also due to the realization that the existing national private capital, indigenous and Chinese, was still too weak to carry out the task of restructuring the economy. They were not equipped to operate large scale sectors of economic activity such as infrastructure development and manufacturing.²³ The period 1950-1957 saw the state starting to involve itself in the financial, public utility, industrial, and import-export trade sectors. The Dutch-owned Java Bank was nationalized, reconstituted as Bank Indonesia and assigned to carry out central banking tasks. Two state banks were established, the State Industrial Bank (Bank Industri Negara - BIN) to finance industrial projects, and the Indonesian State Bank (Bank Negara Indonesia - BNI), a foreign exchange bank to finance importers. A range of public utilities were also secured, the mail and telephone services, electric utilities, and the railway company. With financing from BIN, state corporations were founded in cement production, automobile assembly, and textiles. Finally, the state attempted to break the Dutch control on international trade by establishing the Central Trading Company (CTC) to export commodity products.²⁴

The establishment of these state enterprises did not

²³ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 40.

²⁴ Ibid., p. 40.

constitute a thorough and assertive move toward formation of a planned economy. Foreign capital and Chinese capital still dominated the Indonesian economy. These moves were rather driven by the idea that the state would provide an infrastructure for the development of a domestic capitalist class. The state operated enterprises that were necessary but beyond the capacity of domestic capital. Simultaneously, while the state was engaged in these economic activities, it was also supporting potential indigenous entrepreneurs. The hope was that in the future they become pioneers for the emergence of a larger indigenous bourgeoisie. The state provided both credit for indigenous businesses, and protection against foreign and Chinese competition. These forms of state assistance were provided in several business sectors; banking and co-operative credit operations, agriculture estates, rice milling, commodities export, and light manufacturing.²⁵

One of the most concerted effort by the state to create an indigenous capitalist class was the "Benteng" (Fortress) program designed to secure indigenous dominance in the import trade sector. This sector appeared to be most responsive to state direction through controls over the allocation of import licenses. It was a logical choice since importing required less capital in comparison to manufacturing. Certain categories of goods were reserved for prospective indigenous importers, and provisions were made to make credit available through BNI.

²⁵ Ibid., p. 42.

However, as the program progressed it became apparent that few recipients of import licenses were established indigenous importers, but tended instead to be individuals associated with powerful figures in the bureaucracy or the political parties who controlled allocation of licenses and credit. More disturbing, it also became apparent that the majority of Benteng program firms were not using licenses for importing, but were simply selling them to genuine importers, mostly Chinese, and often failing to repay BNI credit. What was created was not an indigenous merchant bourgeoisie but a group of license brokers and political fixers. The government became aware of the problem and took steps to eliminate the brokers. Through a screening process the number of Benteng importers were cut in half in mid-1953.²⁶

Opportunities for allocating these state resources were also fastly becoming fertile ground for the emergence and expansion of a patrimonial structure within the state. Control over the allocation of state credits, licenses, monopolies, contracts, turned into a struggle between state managers who wished to use them as tools in a regularized economy, and politico-bureaucratic factions which sought to use the authority of the state apparatus to secure sources of income for their personal needs, and

²⁶ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 44-45.

John O. Sutter, Indonesianisasi: Politics in a Changing Economy, 1940-1955, Volume III (Ithaca, NY: Cornell University, Southeast Asia Program, 1959), p. 1026-1027.

establish a basis for accumulation by their business clients. During this democratic period characterized by the political parties dominance, the political parties were able to establish hegemony over particular government offices that deals with economic and financial policies. Politicians allocated a variety of preferential treatment quotas from behind the desks of the Department of Trade, BIN, and BNI, to companies owned by the party, or to business entities owned by relatives or political associates.²⁷ Licenses and credit allocations could also be sold directly for cash to individual businesses, most often owned by the Chinese. Not surprisingly, the end result of these policies was very disappointing. Indigenous businesses, particularly those with no affiliation to parties, failed to capitalize on these opportunities, and Chinese capital succeeded to retain a solid foothold in each respective sector. Indeed, in some cases the Chinese even strengthened their position by filling in the gap created by the ending of colonial rule and the

²⁷ During their tenure in the executive branch, each party succeeded in establishing a complex of economic network. Having the economy related ministries headed by their own party commissars, the party was able to dominate the implementation of certain economic policies. From gaining access to credits to the allocation of import licenses, these activities revolves around a small group of party affiliated business groups and individuals.

PNI corporate interests centered around Yayasan Marhaen and Bank Umum Nasional. Bank Banten was closely associated with Masyumi, while the Zoro Corporation and Bank Niaga with PSI.

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 49-50.

Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 123.

retrenchment of Dutch capital.

In sum, the years 1950-1957 witnessed a futile experiment in economic nationalism. Even as late as 1957, about half of all estate acreage remained under Dutch ownership, about 60% of the country's foreign trade was still controlled by the Dutch, and a substantial portion of the total bank credit was accounted for by Dutch banks.²⁸ These policy failures led to two different reactions, both of which called for an end to state subsidies toward indigenous capital. The PSI and Masyumi called for a return to a more market-oriented economy. Under this condition only the most efficient capitalists will carry out the production and exchange of goods, and the indigenization of the economy will be slowed down considerably. Those who still saw economic nationalism as a priority, Sukarno among them, were left with very little faith in the capacity of indigenous capitalists to act as an instrument for an economic revolution. However, they have increasingly become convinced that a solution can only be found through the state itself assuming the burden of creating a national economy.²⁹

At the end of 1957, state involvement in economic matters existed at two levels. First, at a public policy level where fiscal, monetary, and legal relationships between the state and

²⁸ Ralph Anspach, "Indonesia," Underdevelopment and Economic Nationalism in Southeast Asia, ed. Frank H. Golay, Ralph Anspach, M. Ruth Pfanner, and Eliezer B. Ayal (Ithaca, NY: Cornell University Press, 1969), p. 180.

²⁹ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 46.

capital were established. Second, the state role has also evolved into a more patrimonial nature. Relationships between officials of the state and individual capitalists were conducted on the basis of private appropriation of state resources by its own officials. Although there was increasing pressure to eradicate this form of corruption by the political parties, the abrupt end of the democratic parliamentary system in 1959 resulted in a resumption of the patrimonial mode of operation, and patrimonialism was becoming an increasingly important and unique characteristic of the future authoritarian Indonesian state.

The Army's Expanded Role in Capital Formation Processes (1958-1965)

In 1955 the Indonesian people held a truly fair election.³⁰ To many leaders, however, the results were not heartening, for it became clear that nationalist and secular forces appealed mainly to people of Java while the Muslim grouping of parties resonated with the people from the outer islands. Not only did it polarize the country along sharply different ideological lines, but the threat of Communism became more real in the eyes of many elites. Although PKI gained the smallest percentages among the large parties, it still managed to cast a respectable 16.11% of total votes.

³⁰ Until now the election of 1955 is the only genuinely open and honest election ever carried out in the history of the Republic of Indonesia.

Instead of arriving at a resolution of the political power distribution problems in parliament following the 1955 election, the country was saddled with a chain of increasingly violent crises. First, several rebellions led by regional commanders erupted in Sumatra and East Indonesia.³¹ Shortly afterward, the United Nations voted against Indonesia over the status of West Irian, the remaining Dutch East-Indies territory still under direct rule from the Hague. The crises peaked when a disgruntled officer attempted an assassination on President Sukarno's life.³² The state was placed under martial law, an act that

³¹ CIA involvement in supporting the regional rebellions in Indonesia is quite significant. Convinced that Sukarno rule is going to lead Indonesia into a communist camp, the Eisenhower administration decided to launch a covert policy aimed at undermining the central government in Jakarta in 1957. CIA provided the rebels with modern arms, communications equipments, and training at various American military facilities in the western Pacific.

However, the Indonesian army successes in defeating the rebellion backfired on the United States policy. US reputation in the eyes of the Indonesian government reached a record low when a US plane was shot down over Ambon and the pilot, Allen L. Pope, an American pilot working for the CIA, was captured in May 1958. Jakarta now had incontrovertible proof of direct American involvement in support of the rebels.

Audrey R. Kahin, and George McT. Kahin, Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia, (New York: New Press, 1995), p. 120-142, p. 163-166, p. 179-182.

³² Since US - CIA documents pertaining to Sukarno's assassination attempt is still classified to this day, the degree of CIA involvement in the affair remains unclear. In 1975, there was an effort by the Senate's Select Committee on Intelligence, chaired by Senator Frank Church, to probe into the affair. However, through pressure from Secretary of State Henry Kissinger and CIA itself, a CIA official was put in charge of the Indonesian investigation. Hence, this staffing decision, in Audrey and George Kahin opinions, has severely blunted the efforts to get at the bottom of the mystery.

significantly increased the power of the army, then under the leadership of General Nasution. After the army had successfully defeated the regional rebellions, the constellation of Indonesian politics changed markedly.

Masyumi and PSI whose leaders had openly supported the rebellions were discredited by the political public. Added to this, was Sukarno's constant condemnation of the party system's liberalism and the failings of Western style democracy. Hence, other parties who had supported the government throughout the crisis, PNI and smaller nationalist parties, did not fare better either. Only PKI, who had never joined the government throughout the previous eight years, retained its prestige, but it was starting to experience a number of army-imposed limitations on its political activities.³³

Sukarno with the support of the army dissolved the parliament in July 1959, and almost nine years of experimenting with democracy ended abruptly to be replaced by an authoritarian form of government. Indonesia entered the so called era of "Guided Democracy." As new structures of authority took shape, the military was able to secure strategic positions in the cabinet as

Sukarno himself, however, came to regard the attempt as being "masterminded" by CIA and was fully convinced that the agency had been and remained "out to get him."

Audrey R. Kahin, and George McT. Kahin, Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia, (New York: New Press, 1995), p. 114-115.

³³ Herbert Feith, "The Dynamics of Guided Democracy," Indonesia, ed. Ruth T. McVey (New Haven, CT: Yale University, Southeast Asian Studies, 1963), p. 320-21.

well as in regional administration bodies.

Even before the parliamentary system was dissolved, the army already made significant political moves to ensure its foothold in the Indonesian capital system. Immediately after the adverse vote in the UN over the status of West Irian at the end of November 1957, Sukarno made true his earlier threats that Indonesia would act so as to "startle the world" in the event the motion was being lost.³⁴ Anti Dutch radicalism was immediately endorsed by Sukarno. On December 3, PKI and PNI affiliated worker unions began taking over Dutch enterprises and business offices. These actions snowballed in the following days. Huge Dutch establishments such as banks, estates, mines, trading houses, and shipping passed into Indonesian hands. In a single wave of nationalization more than 400 business entities were taken over without any compensation. On December 5, the Ministry of Justice exacerbated the already tense situation by ordering the expulsion of 46,000 Dutch citizens in Indonesia.³⁵ These fast moving developments suddenly presented new and huge economic opportunities for the army. Outfitted with martial law powers, General Nasution ordered the army to manage the seized enterprises on December 13, 1957. The army now assumed the role of a major economic force, and it gained access to independent

³⁴ Ibid., p. 320.

³⁵ M. C. Ricklefs, A History of Modern Indonesia (Stanford, CA: Stanford University Press, 1993), p. 261.

sources of funding as well as patronage to dispense resources.³⁶ A year later, the expropriation was formally endorsed by the Parliament and all former Dutch properties were transformed into state corporations.

The consequences of these events were momentous. It ended the earlier recognition, however slight, that foreign investment would contribute to development of the Indonesian economy. It paved the way towards a more intensive socialist approach to economic problems through direct governmental intervention. Jamie Mackie noted that this sudden leftward lurch created a new social psyche among the Indonesian populace, and he described it as "a revolutionary fervor that was daring and full of confidence."³⁷ Doctrines such as Guided Economy, or Socialism á la Indonesia, and outright rejection of liberal thinking flourished with little dissent throughout 1958-1965.³⁸ Most

³⁶ During the 1960s the army role further expanded when British enterprises were placed under military supervision in 1964, and American enterprises in 1965.

Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 39.

³⁷ J. A. C. Mackie, "The Indonesian Economy, 1950-1963," The Economy of Indonesia: Selected Readings, ed. Bruce Glassburner (Ithaca, NY: Cornell University Press, 1971), p. 51.

³⁸ There is no single authoritative definition for the term Guided Economy, but in broad terms it could be summarized as follows:

The coordination and regulation by the state of all sectors of the Indonesian economy, state, private, and cooperative, to ensure the integration of investment and production into the wider social and political goals and needs of Indonesia. State leadership would be provided both in the form of central planning and control over distribution, credit, production,

importantly, the structure of the Indonesian economy was transformed overnight and the state was suddenly thrust into capital ownership at levels unimagined before. They involved ownership of 90% plantation output, 60% of foreign trade, and some 246 business entities in banking, manufacturing, and mining industries.³⁹ Economically, however, these unfolding events brought disastrous effects to the country.

On the whole, state enterprises were a failure and they presided over an alarming decline of Indonesia's existing capital stock.⁴⁰ Jamie Mackie observed that the rubber estate industry, a main export earner, was in serious trouble. Absence of trees replacement, lack of new agricultural technology investments, and lack of adequate management skills were among the factors contributing to this decline. The decline in production of

and through direct state investment.

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 71.

³⁹ Ralph Anspach, "Indonesia," Underdevelopment and Economic Nationalism in Southeast Asia, ed. Frank H. Golay, Ralph Anspach, M. Ruth Pfanner, and Eliezer B. Ayal (Ithaca, NY: Cornell University Press, 1969), p. 193.

⁴⁰ Richard Robison quoted the findings of a US Survey Team as follows:

Indonesia has been living on its capital by failing to maintain inventories, to keep capital equipment in repair, and to replace over-age rubber trees, oil and coconut palms.

(United States Economic Survey Team to Indonesia, "Indonesia: Perspective and Proposals for United States Economic Aid" (New Haven, 1963), p. 12.

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 74.

export crops also meant reduced foreign exchange earnings, which in turn disrupted the import of raw materials and spare parts for domestic industries. Hence, the industrial sector also fared poorly.⁴¹ In macro economic terms it was clear that the performance of state enterprises had drastically weakened Indonesia's trade position. Export earnings declined from \$ 750 million in 1961 to \$ 450 million in 1965, while import requirements for 1966 were estimated at \$ 560 million to cover rice imports, raw materials and spare parts for industry.⁴²

Apart from the problems with capital formation and the chaotic monetary policy situation, state corporations suffered from severe management inadequacies. This latter problem originated largely from the external political influence that was suddenly exercised on these business entities, and the meddling of military personnel in the operations of these enterprises. Panglaykim reported the political appropriation of these offices as follows:

....the appointment of top executives was usually not in the hands of top executives of the state trading corporations or of the General Management Board but lay with other decision centers. Often informal channels were used and informal

⁴¹ J. A. C. Mackie, "The Indonesian Economy, 1950-1963," The Economy of Indonesia: Selected Readings, ed. Bruce Glassburner (Ithaca, NY: Cornell University Press, 1971), pp. 28-34, 42.

⁴² Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 76.

pressures exerted by some group or other in order to obtain appointment of its own candidates.⁴³

This means that many crucial operating decisions were most often not made for commercial purposes but intended to provide finance or services for political power centers or individual officials.

Army officers also continued to participate in the management of these enterprises. It was, in part, another aspect of General Nasution's "Middle Way" concept, a political concept that allows army officers to play a role in civilian matters but did not seek a position of exclusive domination. The real purpose, however, seemed to have been to utilize many of the new state enterprises as sources for funding the army operation and maintenance.⁴⁴ Officers involved in economic management of state enterprises were also entrusted with the task of siphoning off funds and transferring them directly to the army rather than to the government. Through this mechanism the army's dependence on allocations from central government budget was reduced substantially.

The army's new role in government and economic matters not

⁴³ Richard Robison quoting Panglaykim's article.

J. Panglaykim, An Indonesian Experience, Its State Trading Corporations (Jakarta, ID: Universitas Indonesia, Fakultas Economy, 1967).

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 78.

⁴⁴ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 39.

only gave it a large stake in the direction that the country took, but also put many individual officers into an environment where they could advance their own material interests. The army role under martial law enabled them to resume the previously established corrupt practices of their civilian predecessors. The difference lies with the presence or absence of appropriate systems of control and accountability. Under an authoritarian system, there is practically no obstacles that could prevent an officer, entrusted with the duty of transferring funds from a state corporation to the army, from taking a cut for himself and his colleagues. The check and balance mechanisms operating under the previous democratic system were virtually wiped out, and consequently, the political and bureaucratic dimensions became inseparable. In fact, to a significant degree, the military entities have become and acted both as political and administrative entities. Herbert Feith described the situation as follows:

Before 1956, if one may oversimplify for purposes of argument, politics was a struggle between a Masyumi led group of forces linked with independent business and a PNI led group with ties to the bureaucracy and bureaucratically dependent business. By 1958 the group linked with independent business had sustained a major political defeat and so politics became principally a matter of conflict between different segments and 'empires' of the civilian and military bureaucrats and

their offshoots.⁴⁵

This shows that as far back as 1956 the state was already relatively independent from civilian influences and several patron-client networks were already flourishing in the state. What the successor government of Suharto did was simply perfecting and expanding this patrimonial system in order to strengthen his regime political position. The availability of new financial sources during the New Order era aided this enterprise considerably.

On closer inspection there was very little genuinely socialist about the Guided Economy policy pursued, and Richard Robison describes the approach as follows: "it was a ramshackle, underpowered form of state capitalism operated by, and largely for, the benefit of politico bureaucrats who dominated the state apparatus, notably the military themselves."⁴⁶ It was a debilitating form of capitalism and in the end was not able to serve the interests of the people, not even of those who benefits most of it. The meager state income from these corporations combined with the inability to effect a capital accumulation process led to a helpless crises in the state revenue situation.

The end of the Sukarno's regime with the destruction of the

⁴⁵ Herbert Feith, "The Politics of Economic Decline," Sukarno's Guided Indonesia, ed. T. K. Tan (Brisbane, AU: Jacaranda, 1967), p. 54.

⁴⁶ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 98.

Indonesian Communist Party (PKI) by the army was mainly political in nature. Nonetheless, when viewed from a political economy perspective, economic collapse and economic chaos has divested the regime of its earlier support from the propertied and urban middle classes, and their support for military involvement in politics during the 1966 crises made the final discrediting of Sukarno easier. Nonetheless, regardless of regime changes, the patrimonial structure has already taken roots within the state and it proved to be a resilient and determining mechanism for capital development during the next round of New Order governance.

The Rise of Bureaucratic Capitalism (1966-1974)

By 1966, Sukarno left the country with a negative growth rate, 600% inflation, no foreign reserves, and a national debt of over \$ 2 billion.⁴⁷ Production and investment activities have practically stopped all over the country. The remaining private capital, majority owned by Chinese, when not tied to fixed investments and possessing access to foreign markets had made their escape abroad.⁴⁸ Other less mobile investors turned to

⁴⁷ Michael R. J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (New York: Routledge, 1993), p. 33.

⁴⁸ Christianto Wibisono, an economic analyst and himself a Chinese Indonesian, argues that the 1963 takeover of the Oei Tiong Ham conglomerate has sent a strong signal to the Chinese community about the precarious position of their capital. There are no reliable data as to Chinese capital flight, but even if Chinese capital did not leave the country in droves, it certainly

short term transactions in trade and currency exchange, making sure that their property and holdings are shielded from the risks and dangers of the time.⁴⁹ The state was totally incapacitated and unable to fill the investment gaps. The only recourse left was running the money printing presses ceaselessly which in turn created monstrous inflation.

Suharto immediately turned to a group of economics professors at the University of Indonesia in Jakarta.⁵⁰ This newly formed team immediately devised an austerity plan to shock the economy back into balance. Short term economic measures were

was diverted away from productive investments.

Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 47.

⁴⁹ Emil Salim, former Suharto's economic minister, summed up the 1966 economic situation as follows: "Most economic resources were diverted to activities with quick returns. Money went into commodities, creating a sellers market. Normal long-term investment stopped. Unemployment rose, and the whole economy deteriorated rapidly."

Ibid., p. 47.

⁵⁰ Although the government after 1966 was dominated by the army, it sought to associate civilians with it, partly to draw on their skills and experience, partly to create an atmosphere of domestic legitimacy, and partly to create a favorable impression among Western aid donors. These civilians lacked any political support to exercise real power and their qualifications were essentially technocratic. They are loosely known as the "Berkeley Mafia," after the school from which several of them held degrees. David Ransome coined the phrase to draw attention to their connection with the United States.

Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 241-42.

David Ransome, "The Berkeley Mafia and Indonesian Massacres," Ramparts, 9 No. 4 (1970), p. 27-9, 40-9.

specifically designed to control the runaway inflation, and in order to maintain the recently gained support from the middle class and urban populace means were sought to provide urban centers with food and clothing. In an effort to take the rupiah out of circulation a tight credit policy was announced in October 1966. Bank interest rates rose from a range of 6-29% annually to 6-9% per month. To gain access to consumer goods it was essential that creditor states and their agencies be wooed in order to get the country's foreign debt rescheduled and new credit extended.⁵¹ From March to November 1966 efforts were directed at winning the confidence and obtaining material support from those controlling institutional resources. As a result, Indonesia's non-communist creditor countries agreed to act in concert. In July 1966 these countries began making arrangements to reschedule Indonesia's debt repayments, agreed on new debt issuance, and eventually formed themselves into an organization: the Inter-Governmental Group on Indonesia (IGGI) in 1967.⁵²

⁵¹ At the end of 1965 Indonesia's external debt amounted to \$ 2.36 billion, of which 59.5% was owed to Communist countries. Adam Malik, the New Order foreign minister who had a long and cordial relationship with the Soviets arranged for the rescheduling of some of the debts owed to them.

Merle Calvin Ricklefs, A History of Modern Indonesia since c. 1300 (Stanford, CA: Stanford University Press, 1993), p. 291.

⁵² IGGI comprised of thirteen Western donor countries, Japan, and multilateral lending agencies. IGGI has met every year since 1967 and each time renewed their commitment in loans and grants to Indonesia. In 1991, for example, IGGI pledged a record \$ 4.75 billion. For Indonesia, IGGI is a convenient way to mask the fact that western countries and Japan are pumping so much aid to the country. The very use of IGGI, and the fact that Netherlands, and not US or Japan heads the group, is typical of

To reverse the production and investment crises, besides wooing those creditor states and their agencies, the government needed to attract private foreign capital to inject resources into Indonesia's economy. Therefore for the longer term, Suharto, on advice from his economic team, formally pursued laissez-faire and open door economic approaches, aimed at producing maximum growth and relying heavily upon investment by international corporate capital.⁵³ However, communicating with private foreign investors need a different tack. Foreign corporations, unlike foreign governments and their agencies, do not have embassies and envoys for one thing. The foreign business community impression of Indonesia at that time was also extremely negative. Horror stories of past foreign capital seizures, of Communist militancy, and of unspeakable economic chaos cannot be undone overnight. Therefore the sale of Indonesia as a destination for profitable foreign private investment immediately began in earnest.

Jeffrey Winters, for example, describes in great detail a summit conference sponsored by James A. Linen, president of Time, Inc., between the Indonesian ministers and CEOs from major

Indonesia's skill at manipulating appearances.

Michael R. J. Vatikiotis, Indonesian Politics under Suharto (New York: Routledge, 1993), p. 46.

⁵³ In return for Western economic assistance, the Suharto government adopted reform measures of the kind consistently favored by the World Bank and IMF, a combination of open door laissez-faire strategies to encourage foreign investment coupled with strict internal economic controls.

multinational corporations in Geneva in November 1967.⁵⁴ The tone of this conference was very humbling for Indonesia:

With the Indonesians' cards in full view, the formal proceedings for the first day were adjourned. Day two, the guts of the conference, consisted of marathon roundtable meetings....the Indonesians were divided up....they were intimidated by their audience and unsure of themselves as government officials....communication was now bidirectional. In fact, as we will see, there are indications that investors used these sessions to give the Indonesians a crash course in the sort of policies capital controllers would find magnetic, while the policymakers took notes and clarified matters where they could.⁵⁵

To facilitate these prospective foreign investors, a Foreign Investment Law was also crafted in a hurry. At that time the Indonesian team assigned to this task was at a loss for how to draft the law and they received extensive help from economists at

⁵⁴ This was the first and certainly the most important meeting between private investors and state officials. It is not clear if James Linen paid for this summit, but undoubtedly it was not at the expense of the Indonesian government. Panam supplied a chartered airplane while Inter-Continental Hotel Corporation supplied the accommodations in Geneva.

Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 58.

⁵⁵ Ibid., p. 67-8.

the American embassy.⁵⁶ A politician or bureaucrat from previous governments might certainly cringe at reading these excerpts from Winters' book chapter, and to this day there are still significant factions of the political public who might be angered by such submissive posture of the New Order regime toward Western foreign investors. However, these proceedings were carried out in total secrecy and hidden from public view.

The New Order was highly successful in attracting these foreign interests into the country and by 1973 foreign corporations were once again dominant, particularly in mining and forestry. The shares of foreign capital as a percentage of total capital in major sectors of the economy are as follows:

Agriculture and Fisheries	33.5%	Infrastructure	75.0%
Forestry	59.3%	Construction	19.0%
Mining	96.0%	Hotels and Tourism	47.0%
Industry	35.0%	Others, mainly property	32.0%

Source: Capital Investment Board, September 1973.⁵⁷

⁵⁶ This is a far cry from the previous nationalism and pride shown by Indonesians of previous governments. As late as 1991 American consultants were still drafting major Indonesian economic legislation from tax reform, capital markets, to trade deregulation. Important private consulting firms have included the Harvard Institute for International Development, Nathan Associates, and Hill and Knowlton.

Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 61.

⁵⁷ The percentages could in reality be larger than reported since a considerable proportion of capital invested under the domestic investment laws originated from foreign loans or foreign financed equity. These figures were quoted in:

Setting the submissive factor aside, it appears that state-led capital development through implementation of rational and legal bureaucratic authority radically changed the pattern of foreign investment in a period of only six years. This was a development that must have pleased the international financial community and could explain the continuous annual renewal of Indonesian's grants and loans issuance by IGGI. However, behind this rosy picture of foreign investment, a more important but sinister factor also re-emerged in the relationship between the state and capitalism. Patrimonialism that had its origin in previous governments was experiencing an unchecked growth and rampant expansion within the New Order regime.

Although the economic ministers were victorious in advancing market-friendly policies toward foreign investors, internally these technocrats were forced to constantly carry out a losing battle against the interests of deep seated and important patron-client networks within the state.⁵⁸ Both state and private actors were extensively involved in a variety of relationships

Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), p. 24.

⁵⁸ Jeffrey Winters explains that the technocrats success was partially due to their ability to convince Suharto that whatever political and economic benefits he was reaping from patron-client behaviors, Suharto was simultaneously jeopardizing the country's newfound political and economic stability by threatening the state's ability to be responsive to foreign investors and to be competitive with other jurisdictions. Being a good learner of Sukarno's mistakes, Suharto conceded initially.

Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 93.

that advantaged individual businesses rather than facilitating public service. They are essentially rent-seekers who are utilizing opportunities to become recipients of the rents that government can confer through disposing of its resources, offering protection, or authorizing certain types of activities it regulates.⁵⁹ A number of authors have labeled these practices with different names, Richard Robison calls it bureaucratic and client capitalism, while Yoshihara Kunio uses terms like ersatz and crony capitalism.⁶⁰

The patrimonial practices during the New Order era originated foremost from Suharto's own perceived need to build his legitimacy.⁶¹ He needed to transform himself from an obscure major general to a president, and he understood (correctly perhaps, but ethically wrong and not the only viable alternative) that his political survival depended on his ability to manipulate the patrimonial system that has pervaded the military and the

⁵⁹ Yoshihara Kunio, The Rise of Ersatz Capitalism in Southeast Asia (Singapore: Oxford University Press, 1988), p. 68.

⁶⁰ Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), p. 24.

Yoshihara Kunio, The Rise of Ersatz Capitalism in Southeast Asia (Singapore: Oxford University Press, 1988), p. 71.

⁶¹ Patrimonial bureaucracy in Indonesia has its origins in the pre-colonial Javanese kingdoms, where the king distributed appanage benefices to supporters, clients, and family. Clifford Geertz presents a succinct analysis of the appanage operation.

Clifford Geertz, The Development of the Javanese Economy: A Socio Cultural Approach (Cambridge, MA: MIT, Center for International Studies, 1956).

bureaucracy for the past fifteen years. To realize this objective Suharto distributed appanages, in the form of political offices, among military and civilian factions. The most lucrative of such appanages are those offices with the power to allocate oil drilling leases, mining leases, forestry concessions, import and export licenses, government contracts for supply and construction, and state bank credits.⁶²

The officials with the power to distribute these preferential treatments then formed a partnership with private actors, and the alliances could take many forms. Pertamina, the state oil corporation for example, has the authority to allocate oil drilling leases to foreign oil companies. Under General Ibnu Sutowo this state company has become his fiefdom as well as the source for diverting vast amounts of money to various military factions. Alternatively, family members of bureaucrats though lacking in capital, know how, and even intent of becoming directly involved in actual investment and production, have been able to transform themselves into attractive partners for genuine entrepreneurs, usually foreign entities or Chinese. Through their access and connection they enjoy the allocation of monopoly control over certain economic sectors. In his study of Japanese corporate investments in Indonesia, Yoshi Tsurumi found that 28 out of 30 indigenous partners were selected for their contacts with and access to powerful government channels, and that the

⁶² Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), p. 25.

equity of these local partners had been financed by their Japanese partner.⁶³ Another form of patrimonialism is client capitalism, where client business groups rely heavily on concessions and administrative policies. The major Chinese conglomerates associated with Suharto are classic examples of such client capitalism.⁶⁴ The bureaucrats involved and the local joint venture partners possess little concern regarding the productive capital accumulation process of these individual businesses. More tragically, they possess even less consideration for the efficiency of the economy as a whole and for the multiplier effects that the exercise of these policies might have on the economy, factors that should have been central to the public welfare. Politically, this (pseudo) capitalist class that emerged from these arrangements do not constitute a challenge to the state, nor do they threaten the domination of the undeveloped economy by foreigners and Chinese bourgeoisie. This group is rather essential to the survival of both.

⁶³ Yoshi Tsurumi, A Report Submitted to the Harvard Advisory Group, (Jakarta: Bappenas, October 1973), pp. 13-14.

⁶⁴ For a detailed description of the many varieties of bureaucratic capitalism and list of corporations involved see:

Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), pp. 17-39.

Yoshihara Kunio, The Rise of Ersatz Capitalism in Southeast Asia (Singapore: Oxford University Press, 1988), 296 pages.

The Army Rise to Power

The Indonesian army's perception of itself as a political force originated from its formation process during the revolutionary period. Then it consisted largely of youths who were less motivated by an ambition to pursue a military career than by a sense of patriotism and desire to support the young republic proclaimed by nationalist politicians. The republic had a pressing need to rapidly mobilize a fighting force, which means that there was no opportunity for gradual growth of a "professional" army around the nucleus of young officers from the Dutch colonial army who had chosen the nationalist side. These young men had mostly joined local irregular and politically aligned fighting units (laskar) that formed spontaneously throughout the archipelago.⁶⁵ What little military training they had were obtained in auxiliary military organizations set up

⁶⁵ The major fighting force emerged from a collection of several para-military organizations formed by the Japanese military in order to aid them in case of an Allied invasion. The commanders of these units were recruited less for their potential qualities as military leaders than on political grounds. They were indoctrinated with intense anti-Allied feelings which during the revolution transformed into radical nationalism. By far the largest was PETA (Pembela Tanah Air - Defenders of the Fatherland) and Heiho, followed by smaller but more politically oriented units like Barisan Pelopor (Vanguard Corps - nationalist), Hizbu'llah (The Army of Allah - moslem), Barisan Sabilillah (Forces in the Path of God).

Ulf Sundhaussen, The Road to Power: Indonesian Military Politics 1945-1967 (Kuala Lumpur: Oxford University Press, 1982), p. 2.

Merle Calvin Ricklefs, A History of Modern Indonesia since c. 1300 (Stanford, CA: Stanford University Press, 1993), p. 215.

by the previous Japanese military occupiers. Moreover, by its very nature, the struggle for independence was political as well as military. Being low in modern armaments, the Indonesian resistance took the form of guerilla warfare with no clear boundaries between military and civilian life, and heavily dependent on the support of the local population. Therefore, military commanders were constantly concerned with rallying the support for their cause, and in most cases their role as military and political leader became almost indistinguishable.⁶⁶ Thus, the officer corps counted only very few officers whose backgrounds inclined them to be receptive to the concept of the army as an apolitical tool of the state, but the majority were ready to involve themselves in political affairs.

Nonetheless, after independence was attained, the army leadership was taken over by a small group of "military technocrats"⁶⁷ most of whom had attended pre-war Dutch academies. Thus, proficiency gave them preference over other less well trained officers. Under their leadership the army recognized the authority of civilian rule and accepted a

⁶⁶ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 25.

⁶⁷ In 1950 the armed forces chief of staff, Colonel T. B. Simatupang and the army chief of staff, Colonel Nasution, were still in their early thirties. Then, they probably lacked confidence in their ability to tackle complex government problems and therefore were willing to leave government in the hands of the older, better educated, and more experienced politicians.

Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 28.

subordinate role despite the proliferation of political inclinations within the officer corps. This shaky arrangement lasted through the greater part of the fifties.

Throughout the democratic period the army was repeatedly drawn into political conflicts due to a complex of circumstances within the existing power structure. On one hand, the uneasy coalitions of successive governments were constantly attacked by parliamentarians. On the other, the army HQs has not yet been able to fully assert its authority over different army factions and regional commanders. Consequently, this situation resulted in temporary and often crippling alliances between politicians and differing army factions. Conflicts erupted over a number of issues like allocation of funds for the military in the state's budget, the disdain of the military for parliamentary politics, and regional disaffection with central government priorities.⁶⁸

In 1957, several challenges by regional military commanders over central government authority quickly escalated into a conflict whose intensity bordered on a civil war. Commanders outside Java resented Jakarta because of the strong perception that the Javanese domination was bent on exploiting the natural wealth of the export producing Outer Islands.⁶⁹

⁶⁸ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 29-31.

Robert Cribb and Colin Brown, Modern Indonesia: A History since 1945 (New York: Longman, 1995), p. 62.

⁶⁹ On March 2, 1957, the commander for East Indonesia, Colonel H. N. V. Sumual proclaimed (partial) martial law from his HQs in Makasar, thereby theoretically taking over all civil

In retrospect, these events proved to be a critical juncture in the history of the army. It provided the army leadership with an opportunity to once and for all assert its authority over the whole army structure. Since independence such an opening has always eluded the top brass of the army. Additionally, the army also saw a chance to expand its powers and seize control over what are otherwise civilian matters.

Abdul Haris Nasution, now General and army chief, succeeded in persuading President Sukarno to declare a "State of War and Siege," effectively placing the country under martial law conditions and taking the government another step away from parliamentary democracy. The army HQs acted decisively to crush the PRRI and Permesta rebellions, and led by Colonel Achmad Yani, Nasution's first deputy, the central government forces quickly occupied rebel-held towns in Sumatra, and shortly afterward the rebel strongholds in Sulawesi fell too. Within a few months

authority from Bali through Nusa Tenggara, Sulawesi, and Maluku. A long "Universal Struggle Charter" (Piagam Perjuangan Semesta Alam - Permesta) was read out to officers who pledged to complete the Indonesian Revolution. This coup is better known as the Permesta rebellion.

In December 1956, army commanders in Sumatra decided to make their stand against Jakarta with local civilian support. They appeared to have the sympathy of foreign enterprises on the island, including the American oil companies. The rebels also began arresting members of the Communist Party. But it was only a year later that the rebels announced the formation of the "Revolutionary Government of the Indonesian Republic" (Pemerintah Revolusioner Republik Indonesia - PRRI). This coup is known as the PRRI rebellion.

Merle Calvin Ricklefs, A History of Modern Indonesia (Stanford, CA: Stanford University Press, 1993), p. 254-62.

rebel forces were soundly defeated.⁷⁰ This victory also meant the removal of all opposition to army HQs authority over the regional command structure, and Nasution was practically unchallenged in consolidating the army HQs leadership.⁷¹

Politically, the army cooperated with President Sukarno to provide the institutional framework for an authoritarian government. Soon military officers were given substantial representation in the government institutions, from the cabinet and parliament to the appointment of provincial governors and other regional officials. By the end of the Guided Democracy period many officers had become experienced and adroit

⁷⁰ While tensions escalated between the rebels and central government, the Americans made a couple of military moves designed to support the rebels. Secretary of State, John Foster Dulles put out a public statement excoriating Sukarno's government and generally interpreted as a call for its displacement. A few days afterward, on 23 February 1958 the US 7th Fleet ordered South a formidable task force, while the American charge, Sterling Cottrell, suddenly demanded that US forces be permitted to land in Central Sumatra, the rebel's bailiwick, to protect American personnel and property at the Caltex installations there.

Prime Minister Djuanda and General Nasution correctly saw this as a ruse to get American troops positioned in a way that would advantage the rebels, and they concluded that all the US needed was a pretext. Every effort was made to pre-empt an American move into the oilfields. Secretly, the schedule for government troops arrival on the east coast of Central Sumatra was accelerated to fit the situation. With very limited logistical facilities Nasution troops managed to reach the oilfields before the US Marines, and demonstrated that they were perfectly capable of protecting American lives and property there.

George MCT. Kahin, "The Impact of American Foreign Policy," Democracy in Indonesia: 1950s and 1990s ed. David Bourchier and John Legge (Clayton, AU: Monash University, Center of Southeast Asian Studies, 1994), p. 71.

⁷¹ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 33.

politicians. Unlike military officers in countries where power transfer to the military takes place through a sudden coup against a civilian government, Indonesian generals had experienced a relatively lengthy period of political preparation.⁷² Thus by 1965 the army was well entrenched in government.

When Major General Suharto came to power in 1965 there was a substantial number of officers who resented his rapid rise to power. Although they accepted his leadership rather than resort to civil war, they were ready to take advantage of any signs of vulnerability. Suharto used the traditional Javanese principle of a "slow but sure"⁷³ approach in dealing with his rivals. Harold Crouch gives a succinct description of this process:

⁷² By early 1958 the Eisenhower administration concluded that their gambit to support the rebels has failed miserably, and to contain the growth of communist power in Indonesia they better cooperate with General Nasution and the central Army leadership. From 1958 onward US policy toward Indonesia changed course, a Civic Action Program and Military Assistance Program were installed to assist the Indonesian Army. The Soviet Union, meanwhile, through the sale of their aircraft and ships was attempting to influence the smaller Indonesian Air Force and Navy.

Bryan Evans III, "The Influence of the United States Army on the Development of the Indonesian Army (1954 - 1964)," Indonesia, 47 (April 1989), pp. 25-45.

George McT. Kahin, "The Impact of American Foreign Policy," Democracy in Indonesia: 1950s and 1990s, ed. David Bourchier and John Legge (Clayton, AU: Monash University, Center of Southeast Asian Studies, 1994), p. 73.

⁷³ Doing things slowly but in a calculated way is a common Javanese approach to life, and there is a famous Javanese credo for this: "alon-alon asal kelakon."

Moving against one group at a time, he (Suharto) always endeavored to isolate them from their potential allies and, after convincing them of the hopelessness of their position, offered face saving ways out in the form of prestigious and often lucrative diplomatic and administrative appointments. Many of his former rivals were given opportunities to succeed in business. A few of the more recalcitrant, however, were arrested.⁷⁴

Through this approach Suharto moved against his potential rivals. He succeeded in easing out General Nasution into a prominent but relatively powerless position. A few remaining officers who had held senior positions under General Ahmad Yani's⁷⁵ leadership and regional commanders whose loyalty to him were suspect were also replaced. The last group to be shown the door were the "New Order militants," officers who had called for more far reaching reform than what Suharto and his colleagues wanted.

In strengthening the army's grip on the government, Suharto was careful not to over-represent the army at the cabinet level.

⁷⁴ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 222.

⁷⁵ When the communist putsch took place in 1965, General Yani who had been promoted to Army chief of staff, was shot and instantly killed at his home when he resisted arrest. General Nasution, the Armed Forces chief of staff, managed to flee when soldiers approached his house, but in the shooting that ensued his five year old daughter and his adjutant were killed.

Ulf Sundhaussen, The Road to Power: Indonesian Military Politics 1945-1967 (Kuala Lumpur, Malaysia: Oxford University Press, 1982), p. 196.

While making sure that army representatives held key departments like defence, internal affairs, and important economic offices, military representation ranged only between 6 and 12 in a 27 member cabinet over the years. Although civilians were a majority in the cabinet, the appointed ministers lacked any political backing to exercise power. In its operations, the cabinets under Suharto were not decision making bodies, but cabinet meetings were being held mainly to hear guidelines from the president and to report to him. Behind this formality however, many policy decisions were made, not by the ministers, but by a select group of army officers who enjoyed Suharto's confidence instead of the appointed civilian ministers. Known as Aspri (Asisten Pribadi - Personal Staff) they constituted of 12 officers with a wide range of expertise ranging from intelligence to finance. This body took a low profile attitude and worked in a very secretive manner, but was widely regarded as the "invisible cabinet" wielding real power.⁷⁶

It is at the layers below the cabinet and the regional levels that the representation of the military was more evident. More than a third of Director Generals and Secretary Generals were being held by military personnel. The same pattern was replicated at the provincial, county, and city government levels. The posts of provincial governors, county administrators, and mayors were predominantly held throughout the years by military

⁷⁶ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 243.

officers.⁷⁷ The army control machinery did not end there. To ensure domestic security the army created a tentacle like apparatus to control civilian activities all the way down to the village levels. This is known as the army's territorial organization, and the network branches out from regional military command at the province level (Kodam), to the military resorts commands at the town level (Korem), to the military district commands at the county level (Kodim), and small military rayons at the sub-county level (Koramil).⁷⁸ Intelligence gathering on civilians was carried out by the Operations Command to Restore Security and Order (Kopkamtib) and the State Intelligence Coordinating Body (Bakin).⁷⁹

The success of the army in dominating the government machinery at all levels has enabled Suharto and the army to set the tone of the entire country's administration. The civilian executives had to fit into a system in which power lay with the military. Control of the administration meant not only that the army had strong influence over government policies at all levels, but also that officers could distribute benefits and dispense patronage to their military colleagues and civilian friends.

⁷⁷ Ibid., p. 242.

⁷⁸ Ibid., p. 222.

⁷⁹ Robert Cribb and Colin Brown, Modern Indonesia: A History since 1945 (New York: Longman, 1995), p. 121.

Political Parties

The emergence of the army to a position of unchallenged domination of the government in the sixties was welcomed enthusiastically by a small section of the public, a majority of whom were middle class, and accepted as an unavoidable reality by most of the rest. Considering the turbulence of the preceding period, rule by the army seemed at least a necessary respite since it guaranteed a more stable political climate. Many had hoped that political stabilization in the long run, was going to lead to the formation of a new political framework, one which included civilian groups participation. However, the accommodation that eventually emerged, instead of incorporating popular participation, emasculated the existing political parties.

Political suppression started with the eradication of all political groups on the Left. Although the army was involved in violent massacres of Communist Party members,⁸⁰ their main

⁸⁰ The conflict of 1965 was not confined to the political sphere only, and in the mid-sixties the army launched a systematic campaign at eradicating all communists, including those who are merely sympathizers, or perceived as being communists. One conservative but credible estimate found that around 300,000 to 400,000 communists were killed, and another million were sent to camps or prisons. The Central Intelligence Agency described the killing spree as follows:

In terms of numbers killed, the anti-PKI (Indonesian Communist Party) massacres in Indonesia rank as one of the worst mass murders of the twentieth century, along with the Soviet purges of the 1930s, the Nazi mass murders during the Second World War, and the Maoist bloodbath of the early 1950s. In this regard, the Indonesian coup is certainly one of the most significant events of the 20th century, far more significant

approach consisted of demonizing every form of left-leaning ideology and extensive imprisonment of anybody with the slightest connection to the Communist Party. The word "communist" became a term to be feared. Every adult citizen was required to go through and pass a military screening in order to obtain a "Free from the 30th September Movement Involvement" letter (Surat Bebas G-30-S). Without possession of this letter it was difficult to find employment or initiate a career move. Over one and a half million citizens were detained by the military. A very small number were tried and convicted, but the majority were sent to various prison camps around the country without any due process as to their guilt or innocence. These measures soon became a convenient tool to remove from politics anyone on the Left.

Repression alone was not enough, however, and soon after the communists suppression other non-Left leaning political groups initiated a lively discourse on the long term system for New Order Indonesia. A wide variety of formats were offered for debate and they all assumed some form of mass democratic

than many other events that have received much greater publicity.

It is argued here that this mass genocide has resulted a climate of constant fear among the populace as well as the removal of what could have been a potentially vibrant opposition force to the New Order rule.

Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 20.

Central Intelligence Agency, Directorate of Intelligence, "Intelligence Report: Indonesia - 1965, the Coup that Backfired," Central Intelligence Agency, Washington DC (1978), p. 71.

participation in politics.⁸¹ The international agencies involved in economic reconstruction also left no doubt as to their wishes to see some form of democratic restoration in Indonesia although they refrained from setting a specific timetable and structure.⁸²

Suharto and the new military regime, however, never intended to return the country to a democratic parliamentary system. Nonetheless, they became increasingly aware of the necessity to create a mechanism that could give the masses some sense of political participation, allow grievances to be heard before they evolved into a security risk, but still keep the decision-making powers firmly in government hands. Therefore the central problem for the military was to ensure total control over the parliament.⁸³

⁸¹ The years between 1966 and 1974 were marked by remarkable political excitement and free expression of ideas (except for the communists) relative to the constraints of Sukarno's Guided Democracy era. It was a reawakening of much Indonesia's social, cultural, and educational life. The press, the publishing industry, and the arts flourished with unprecedented vigor, as did political debates about the socio-economic objectives that the New Order regime should be pursuing.

Jamie Mackie and Andrew MacIntyre, "Politics," Indonesia's New Order: The Dynamics of Socio-economic Transformation, ed. Hal Hill (Honolulu, HA: University of Hawaii Press, 1994), p. 12.

⁸² Robert Cribb, and Colin Brown, Modern Indonesia: A History since 1945 (New York: Longman, 1995), p. 121.

⁸³ Although members of the military are not permitted to vote in elections, the military is being allotted a bloc of seats in parliament. In 1971 directly appointed armed forces representatives totalled 75 out of a total of 460 seats.

Robert Cribb, and Colin Brown, Modern Indonesia: A History since c. 1945 (New York: Longman, 1995), p. 124.

Suharto and his colleagues chose as their vehicle for this electoral venture an obscure and little known association of trade unions called "Functional Group" (Golongan Karya - Golkar). It was not a party as commonly perceived, because it had no individual membership, no distinct cadre of activists, and no ideology of its own. It was a name against which voters could register support for the government at election time.⁸⁴

Because Golkar was an unknown political entity, the government sought to ensure its victory through implementing several measures that greatly reduced the dynamic and vibrant character of the Indonesian political and election system. First, independent candidates and small parties were banned. This left the political field with only with nine parties to compete against Golkar. Second, General Ali Murtopo, Suharto's personal assistant, intervened deeply into the internal affairs of the parties, ensuring that pro-military figures were elected to party leadership positions. When members of the banned Masjumi attempted to reconstitute the modernist Muslim political stream in a new party - Partai Muslimin Indonesia (Parmusi), Suharto prohibited the previous leaders from holding office and eventually intervened to appoint one of his own cabinet ministers, Mintareja, as party head.⁸⁵ Third, the bureaucracy which provides a significant number of electoral votes, was purged of members who were affiliated with the legal parties and

⁸⁴ Ibid., p. 124.

⁸⁵ Ibid., p. 124.

further molded into a "monoloyalty" voting bloc group. The pretext utilized was that party membership is incompatible with impartial service to the nation. Also, it is argued further, civil servants who receives livelihood from government should repay that support by showing loyalty to the government at election time. Eventually, all civil servants were required to belong to a single organization, the "Civil Servant Corps of the Republic of Indonesia" (Korps Pegawai Republik Indonesia - Korpri) which in turn became affiliated with Golkar.⁸⁶

During the 1971 election Golkar won decisively, sweeping almost 63% of the votes, and subsequently winning 227 of the 351 seats at stake. Undoubtedly, this first election reflected significant public confidence in the new regime, but it also showed the effectiveness of government efforts at blunting the will of the parties.

This victory increased further government confidence, and led to an intensified effort to re-organize the parties. The aim was to consolidate government power and control over its civilian populace. In 1973, the nine existing parties were forced to merge into two entities, the Indonesian Democratic Party (Partai Demokrasi Indonesia - PDI) and the Unity Development Party (Partai Persatuan Pembangunan - PPP). The former was basically of the old nationalist forces and Christian groups, while the latter incorporated all Muslim parties. The enforced mergers succeeded in eradicating much of the narrow sectional interests,

⁸⁶ Ibid., p. 126.

while reconstituting their ideology into broad national consensus objectives. Politically, however, the mergers crippled the old parties by pitting the component parts against each other within the new structures, and absorbing their energies into mutually destructive quarrels.⁸⁷

By 1974 the policies and deft maneuverings of Suharto's military regime began to bear fruit. There was no democracy in government decision-making processes. The parliament was practically in the government's pocket and had become a government's rubber stamp institution. Government policy emerged from the presidential palace, the National Planning Board (Badan Perencanaan Nasional - Bappenas), and from the army without any intervening stage of public consultation. Strong political repression was used to keep dissenting voices quiet. Ali Murtopo in particular, seemed to symbolize the regime's cynical willingness to resort to manipulation and dirty tricks to achieve its political aims regardless of public opinion. Whatever benefits the New Order might claim to have delivered, it could not claim that it had given Indonesians a greater sense of controlling their own destinies.

⁸⁷ Jamie Mackie and Andrew MacIntyre, "Politics," Indonesia's New Order: The Dynamics of Socio-economic Transformation, ed. Hal Hill (Honolulu, HA: University of Hawaii Press, 1994), p. 13.

Conclusion

Throughout its history since independence, the Indonesian state - society relation has experienced a significant transformation. In the early years of the Republic, the Indonesian society, at least partially, was characterized by a dynamic and a highly participatory political system. A variety of political parties and mass organizations were vigorously politicking, and their voices mattered a great deal in the realm of public policy making. The state was characterized by a string of weak governments with low levels of autonomy, lack of funds, and constantly in need to attract popular support. In contrast, at the end of 1974, the society was characterized by a tightly constrained political system where opposition voices were almost non-existent. The state is dominated by a strong military government that is increasingly becoming autonomous, awash in financial resources, and could devise policies at will without any legislative checks.

It seems, as if the failure of democracy in Indonesia was caused by the inability of politicians to find accommodation and compromise between the administrators and the solidarity seekers political groups during the early years of the Republic. A deeper rooted cause, however, was the lack of a democratic tradition within the larger Indonesian civil society. Aside from having a population that structurally was not configured into power balancing classes, neither was the society institutionalized in the workings and dynamics of democracy. A

democratic parliament was simply placed in the middle of the Indonesian political scene without due consideration as to the existing power configurations and required institutionalization processes. Moreover, the political elite did not possess real value commitments to democracy. Such commitments are crucial to diffuse and internalize further constitutional democracy into society. Herbert Feith so aptly characterized this problematic situation: "there were some with value commitments to democracy, and most had commitments of interest."⁸⁸ Therefore, instead of enacting capital development processes that could have been conducive to the emergence of an indigenous capitalist class, the half hearted policies implemented in the fifties opened up opportunities for the growth of a patrimonial system within the state. Nevertheless, for all its failings, the democratic parliamentary system was still able to provide some degree of measured control over the policies and acts of the executive branch of government. Hence, at the first signs, when the indigenization program ran afoul and was being diverted by politically appointed bureaucrats, a vigilant parliament was ready to check on these unscrupulous practices.

The abolishment of the democratic parliamentary system and its replacement with an authoritarian system and increasingly autonomous state, rather than controlling the patrimonial practices, provided fertile ground for the patrimonial system to

⁸⁸ Herbert Feith, The Decline of Constitutional Democracy in Indonesia (Ithaca, NY: Cornell University Press, 1962), p. 604.

take roots and constantly expand its reach in the capital development processes of Indonesia. By 1974, the degree of state autonomy has reached such levels that a strong pattern of bureaucratic capitalism has almost become institutionalized and legitimized in the country. Under this condition capital accumulation processes were limited and constrained within a small circle of power elites, and having connections and access to particular high level bureaucrats have become the norm rather than the exception in the Indonesian private business circles.

Sadly, this proved not to be the peak of bureaucratic capitalism. With the upcoming oil boom of the late 70s and early 80s, the state treasury was suddenly experiencing a flood of incoming cash. Chris Lewis characterized this stream of money: "with the speed of a wish granted by a fairy grandmother."⁸⁹ This new development released a variety of new possibilities for Suharto and his patron-client network to bring patrimonialism to new heights in the capital development story of Indonesia. Not only was Suharto and the military able to expand their political support among their circle of elites, but it also enabled them to buy loyalty and dependency from a larger political following, and in the process muzzled any possibility for a social transformation to take place in the country.

⁸⁹ Chris Lewis, "After the Misused Boom," Asian Business 16 (3), 1980, p. 54.

Chapter Three

The Oil Boom Period (1974-1982)

From 1965 to 1974 the Indonesian government pursued a laissez-faire - open door policy, albeit with significant streaks of patrimonialism in it.¹ Policies were aimed at producing maximum economic growth and the economy relied heavily upon foreign capital investments, particularly in the oil, mining, and logging sectors. At the same time, weariness with revolutionary politics among large sections of the population combined with a longing for a return to political stability, gave Suharto and the army ample opportunities to insulate the state from sectional interests. As has been described in the previous chapter, this concentration of power was achieved through patronage, the army's infiltration into major positions within the bureaucracy, and the emasculatation of political parties.

When it became clear that the elimination of corruption was not a central priority of the government, disillusionment among Suharto's erstwhile supporters, particularly students, rose. The conflict reached its peak by the end of 1974, and came to a head on January 15, 1975. During a state visit by Premier Kakuei Tanaka of Japan, student demonstrations and street rioting

¹ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 131.

Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), p. 25.

erupted in Jakarta.² These events shocked the government to its very roots, and the "January 15 Disaster" (Malapetaka 15 Januari - Malari) as they became infamously known, marked a decisive turning point for Indonesian economic policy and political approach. With heavy odds against his continued rule, Suharto ushered in a new and more repressive phase in Indonesian politics. From 1975 to 1982 the Indonesian people witnessed how power and authority were becoming more concentrated and more tightly controlled in the hands of President Suharto himself.

The Suharto government relied on three strategies to curb any effective opposition to its monopoly on power: fairly wide cooptation of important middle-class factions into the patrimonialist economic system; securing compliance from peasants in rural areas through ensuring a "minimal" delivery of economic goods; and construction of an authoritarian corporatist political system. Rather than building true grass roots support for his regime, Suharto spread around both largesse and preferential treatment among strategic blocks of constituents located in Golkar and its accompanying corporatist political units, the bureaucracy, and the military. A well coordinated rice policy was implemented to raise somewhat the living standards of

² Tanaka tour of Southeast Asia had already generated hostile student reactions in the capital cities of Thailand and Malaysia. In Bangkok he was burned in effigy, and in Kuala Lumpur was found guilty in a mock trial on the university campus. The reception in Indonesia's capital proved to be the most hostile of all.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 135.

villagers and peasants. This measure ensured that a mass exodus from the rural areas to urban centers and a rural uprising were to be avoided. Lastly, the government build on its previous successes in emasculating political parties. It perfected the authoritarian system through continued political repression; it managed political participation; and it gradually generated a corporatist state-society structure. This latter institution consisted of various compliant functional and professional political units upon which the government exercised heavy controls, from selection of their respective leaders to articulation of their demands and supports.

Throughout this enterprise the regime was exceptionally fortunate and greatly assisted in the process by the windfall of the oil boom, particularly the second sub-oil boom that took place in 1979. However, at specific junctures, the processes for implementing these strategies were dotted with intra-elite infighting between the market-oriented technocrats and the patron-client factions. Each party scrambled furiously to either retain or obtain control over the utilization of the financial resources involved.

In the end, Suharto managed to transform the New Order, from a government with a relatively broad base support toward one with a much narrower base. Moreover, the source of that support originated from a combination of resource dependency, coercion, and grudging acquiescence rather than the stirring mobilization

politics of the earlier decades.³

In the next sections, each of these strategies will be revisited through surveying the major highlights of the Indonesian economic and political developments from 1974 to 1982.

The Budgetary Process

An understanding of the Indonesian state's budget and its accompanying intricacies are necessary to explain the continued rise of the patronage system during the period from 1974 to 1982. The budget of the Indonesian government comprises two categories, routine and development. Formally, routine expenditure represents what is necessary to maintain a minimum level of government services, while development spending represents capital deepening which subsequently will expand the productive capacity of the economy.

On the revenue side, the routine budget consists of receipts from taxes, including those collected from the state oil corporation, Pertamina. The money collected is utilized to pay for rice rations, for the basic salaries of civil servants and military personnel, and to service the debts incurred by the state.⁴ Eugene K. Galbraith, a seasoned expert on the workings

³ Jamie Mackie, "Indonesia: Economic Growth and Depoliticization," Driven by Growth: Political Change in the Asia Pacific Region (New York: Studies of the East Asian Institute, University of Columbia), p. 81.

⁴ Wing Thyee Woo, Bruce Glassburner, and Anwar Nasution, Macroeconomic Policies, Crises and Long-Term Growth in Indonesia (Washington DC: The World Bank, 1994), p. 176-77.

of the Indonesian government, observed that "government routine outlays are like a retainer paid to a lawyer, they get the civil servants to the office, but to have anyone actually do anything requires extra money."⁵ This latter need is fulfilled by the development budget. Resources for the development budget are: first, any surplus left in the routine budget after routine expenditures have been accounted for, and second, foreign credit and grants.⁶ The development budget covers every government expenditure other than rice rations, personnel wages, and debt service expenditures. They could range from the expenditure associated with the provision of office stationery to the financing of huge development projects. In effect, the whole state machinery, as Galbraith puts it, "turns on 'proyek' (meaning project financing)."⁷

⁵ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 102.

⁶ In its reporting the Ministry of Finance labels its tax revenues as "domestic receipts" and foreign credit as "development receipts." The World Bank and the IMF publish two sets of government budget tables in their annual reports, one with the Indonesian accounting system showing everything balancing neatly, and another in accordance with the way things are reported everywhere else in the world.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 102.

⁷ In many instances, the official designation of "development expenditure" does not correspond to its formal definition and is a misnomer. Since the salary of a government employee is extremely low, even by Indonesian standards, there is great incentive to initiate numerous minor "development projects." When engaged in these ventures many opportunities arise for a government employee to obtain salary supplements.

Foreign government to government credit, which had traditionally been a critical source for infra-structure investments in Indonesia, was controlled both outside and inside the state due to the nature of its sourcing and subsequent utilization. Foreign governments, as suppliers, attempted to tie credit as much as possible to their own interest, be it a geopolitical logic or satisfying some particular power groups at home. Once the funds entered the Indonesian state coffers, the struggle started to determine their control. The Ministry of Finance and the National Planning Board (Badan Perencanaan Nasional or Bappenas), jurisdictions that were under control of the technocrats, had usually exercised the greatest discretion over utilization of foreign credit. To a large degree, this power over resource utilization was achieved due to the preferences of the supplier countries.⁸ Foreign governments and

They originate from performing services such as sitting on a project steering committee, carrying out project evaluations, and travelling to carry out inspection work. The bad character of this scheme is that it encourages the maintenance of activities in favor of projects while neglecting the routine operations of one's regular job.

Wing Thye Woo, and Anwar Nasution, "Indonesian Economic Policies and Their Relation to External Debt Management," Developing Country Debt and Economic Performance, eds. Jeffrey D. Sachs, and Susan M. Collins (Chicago, IL: The University of Chicago Press, 1989), p. 74.

⁸ As soon as Indonesia's economy was stabilized in the late sixties, the IGGI (Inter Governmental Group on Indonesia) pushed for more "project credits" and less for "program credits." The spending of the latter was more difficult to control by creditor countries. In practice, however, regardless of the reporting and accounting system utilized, bureaucrats always found loopholes and ways to benefit them personally from these money schemes.

economic ministers shared the same interests in creating and supporting strong market forms of regulations. Therefore, the power and control that creditors and technocrats possessed over these financial resources had been crucial in preventing other competing political elites, particularly members of Suharto's patron-client networks, from commandeering this key resource pool.

A very different situation existed when the sources of funds were more autonomous in character, like, for example, revenue from oil sale. Since the primary locus of control for these resources was wholly within the state, the position and power of different officials and institutions became the determining factor.⁹ During the oil boom, the surpluses that accrued from

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 101.

⁹ Pertamina through which all revenues from oil flow, was acting virtually as an independent development agency and its very large investments were almost entirely outside the control and knowledge of Bappenas, the Ministry of Finance, and even the cabinet.

Tax receipts that was supposed to be delivered to the treasury had never been fully accounted for. It is widely known that Pertamina, under the directorship of General Ibnu Sutowo who acted with Suharto's blessings, had provided funds to the military and had bought loyalty from influential sections of the Indonesian middle class. For example, it is widely known that Pertamina had funded construction of numerous mosques and sport stadiums throughout the country in the early seventies.

Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), p. 275-77.

Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," Journal of Southeast Asian Studies, 9, no. 1 (March, 1978), p. 2,7.

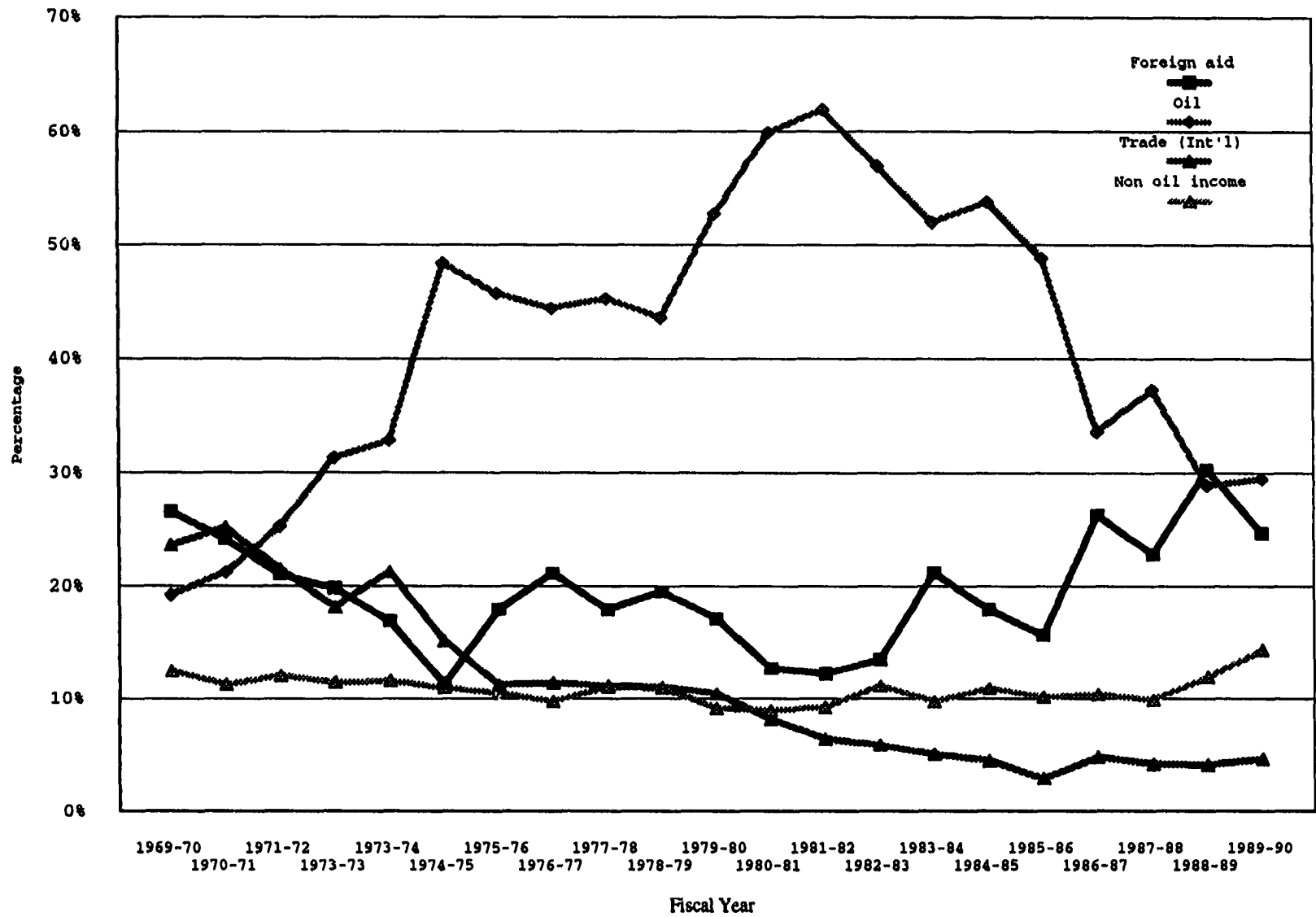


Figure 1 - The Indonesian State's Revenue Sources
 Source: Department of Finance, Government of Indonesia

the sale of these fossil fuels placed huge and profoundly flexible resources directly into the hands of Indonesian policy makers, particularly the patron-client factions linked to Suharto with no meaningful supervisory mechanism whatsoever.

The oil boom had not only enormously increased government revenues,¹⁰ but more significantly it had changed the relative shares contributed by different sources, as shown in Figure 1. The oil boom period lasted from 1974 to 1982, but within this period there were actually two sub-oil booms, each peaking in fiscal years 1974/75 and 1981/82 respectively. Due to their absolute size and unique economic circumstances then prevailing, each of these sub-oil booms were treated and utilized differently by the Indonesian state.

The largest portion of the Indonesia state revenue consisted of foreign aid, sale of oil, non-oil income, and trade related revenues. While during the pre-oil boom years, both oil and

Richard Robison, "Toward a Class Analysis of the Indonesian Military Bureaucratic State," Indonesia, 25 (1978), p. 25.

¹⁰ In early October 1973 the average price of a barrel of crude was still \$ 3.00, but by the middle of October, as hostilities broke out between Israel and Egypt, Arab states had pushed it to over \$ 5.00. By late December the Organization of Petroleum Exporting Countries (OPEC) succeeded in raising the price to almost \$ 12.00 per barrel. In under three months the price of oil had quadrupled.

Similarly in 1979, this time triggered by the deteriorating strength of the dollar and the chaos in Iran, a barrel of crude reached \$ 18.00 in June, and continued to rise, reaching \$ 41.00 in 1981.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 97, 121.

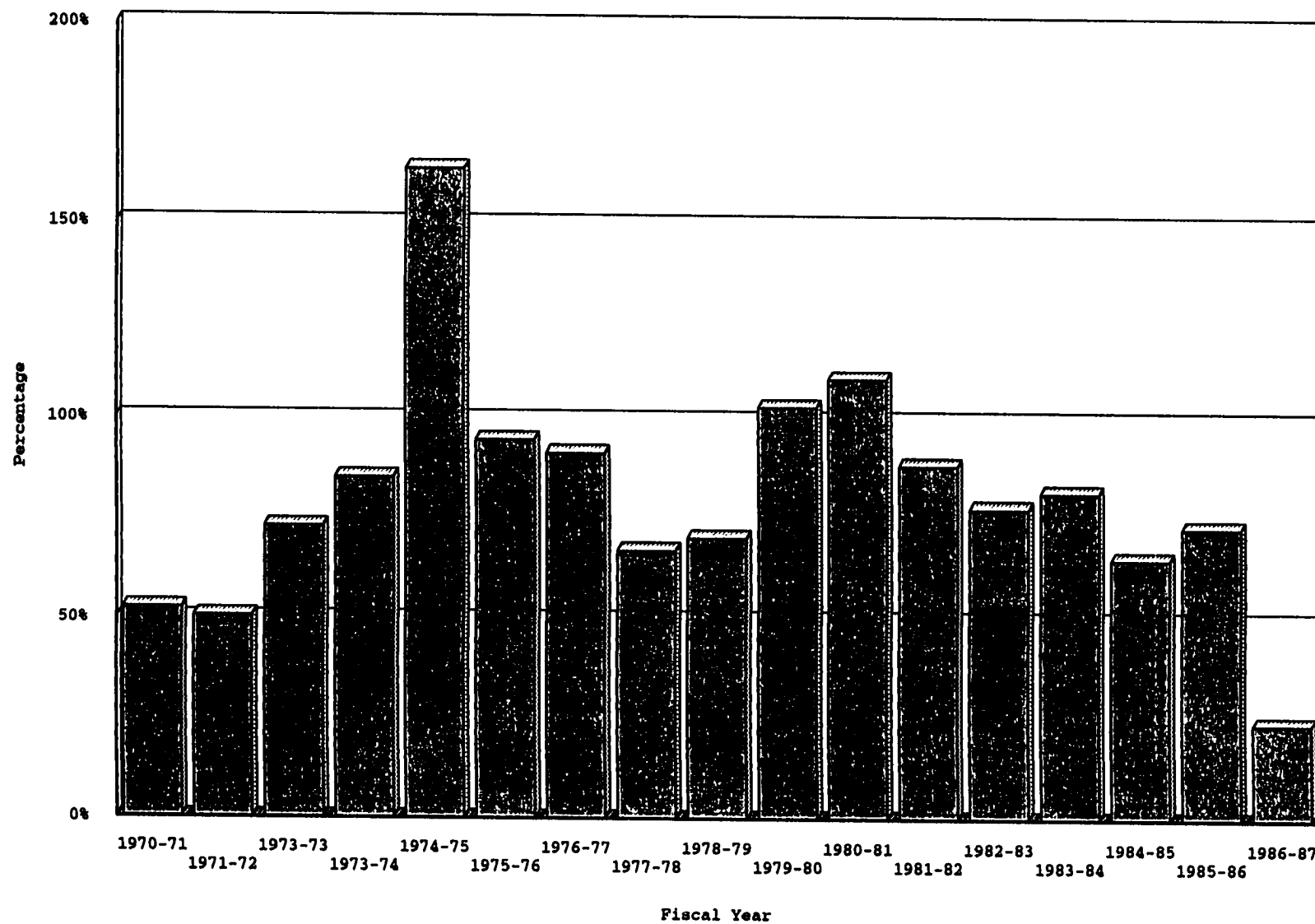


Figure 2 - New Discretionary Resources as %-tage of Previous Year Development Spending
Source: Department of Finance, Government of Indonesia.

foreign aid hovered within the 20 to 30% range, the oil boom years saw oil revenues gradually increasing and reaching a level of 48% in fiscal year 1974/75, and as high as 62% of total revenue in 1981/82. On the other hand, foreign aid decreased to 11% and 12% respectively. After 1981/82, the reverse took place. The percentages of the more autonomous oil revenue gradually descended and reached the same pre-oil boom levels in fiscal year 1988/89, while, simultaneously, the more controlled foreign aid ascended back to its pre-oil boom years level of 30%.

In terms of discretionary funds the two sub-oil booms brought unprecedented financial resources to the state. Figure 2 reveals the intensity of this phenomena. Each bar represents government savings - domestic revenues minus routine expenses - as a percentage of the previous year's total development expenditure. From fiscal year 1970/71 to 1985/86, the Indonesian state had continuously enjoyed an increase in the availability of discretionary funds of at least 50%, most of them above that level. More significantly, huge jumps took place in fiscal years 1974/75, 1979/80, and 1980/81, each attaining percentages above the 100% mark, 164%, 103%, and 110% respectively. After each sub-oil boom a slide off took place with a sharp decrease following the first sub-oil boom, and a more gradual one during the second sub-oil boom as indicated by the bars in the graph.

This representation of discretionary funds is only half of the

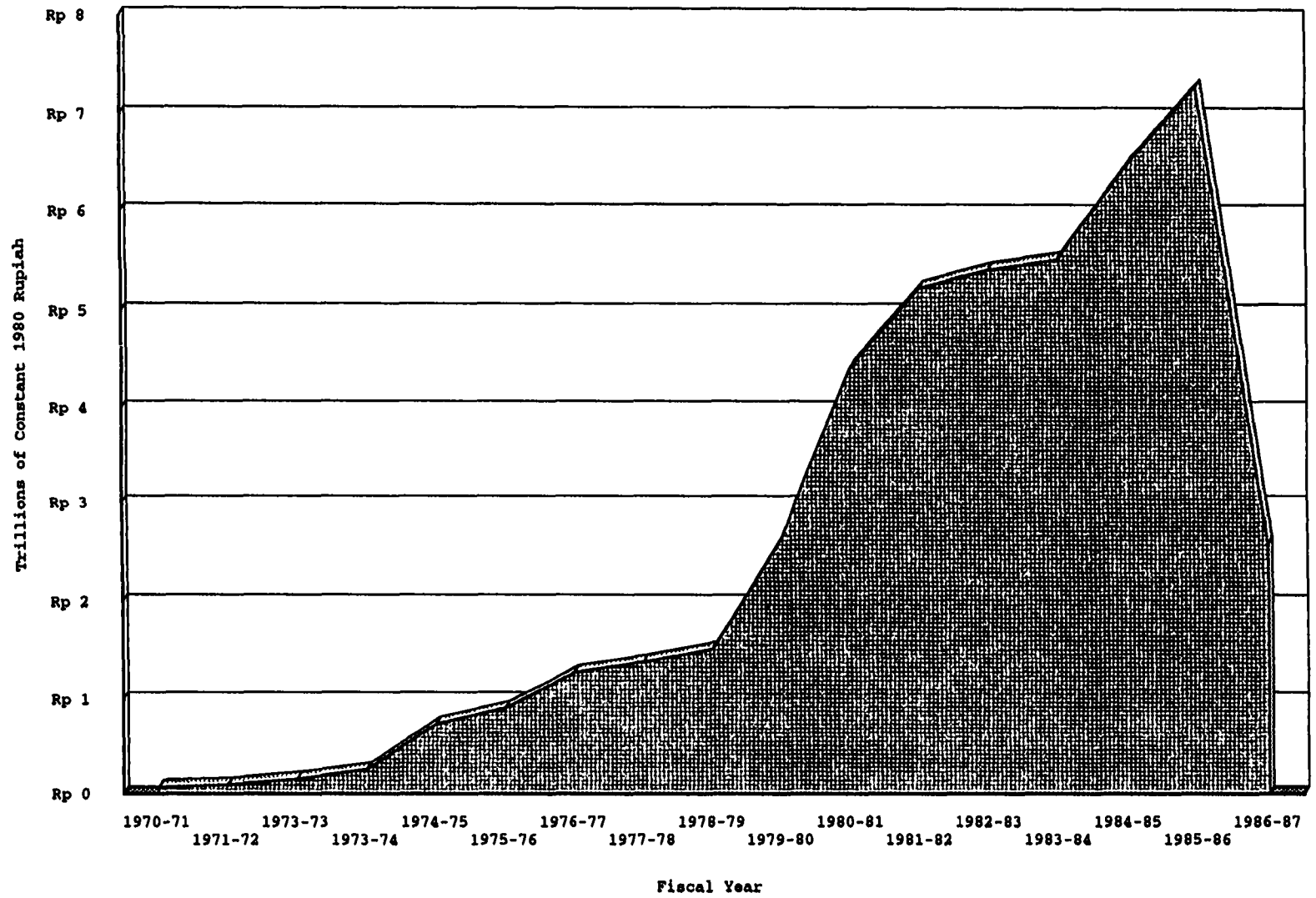


Figure 3 - Impact of Oil Windfalls on Government Discretionary Funds
Source: Department of Finance, Government of Indonesia.

story.¹¹ Figure 3 reveals the absolute amounts of discretionary funds. In absolute terms the second oil boom was much more significant as is evident in the rise of discretionary funds throughout the fiscal year period of 1978/79 - 1985/86. The second sub-oil boom was many times larger in size relative to the first one, and possessed a more sustained character. It was this latter sub-oil boom that handed the patron-client factions in Suharto's government tremendous and unbridled power, while undercutting the powers of the market reform oriented technocrats. The following sections will discuss these issues in more detail.

The First Sub-oil Boom

If given a free hand, Bappenas and the Ministry of Finance would have liked to contain spending. Having only recently succeeded in taming Indonesia's runaway inflation, the economic ministers worried that an oil boom could set back the situation and loosen their grip on inflation control. A stream of windfall revenues followed by excessive spending was in their mind a sure recipe for creating inflation, and the technocrats would have preferred to "neutralize" such a possibility by simply not

¹¹ When examining the bar graph, it is important to keep in mind that the development expenditures are doubling every two to four years, and the extreme high percentage in fiscal year 1974/75 is based on a relatively modest figure. In 1974/1975 development expenditures was only 961.8 billions of constant 1980 rupiah, while in 1980/81 they have reached 11,716.1 billions, an increase of more than 12 times.

spending any money at all. This was not to be and word soon spread throughout the bureaucracy that the moment was right for initiating expenditure proposals. During late 1973 and early 1974, ambitious spending plans were drawn and several huge projects were approved for the coming fiscal years. The upward pressure for government spending was so strong that expenditure realization for fiscal year 1973/74 and 1974/75 exceeded the budgeted expenditure by 35% and 25% respectively.¹² These two periods represented a marked departure from the more thrifty and conservative fiscal practices of the early seventies.

However, the spending spree by the bureaucracy could not be sustained for long either. This was not because of the threat of inflation, but because of two unanticipated and consecutive economic crises. The windfall resources that had gushed into the state coffers were immediately needed to contain the damage created by the severe rice crop failure in 1972 and 1973, and the Pertamina financial crisis.

In 1972 the vagaries of nature intervened and an unusually dry season across the entire rice growing belt of tropical Asia caused a severe shortfall, not only in the rice production of Indonesia,¹³ but in the world rice crop as well. In some parts

¹² Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 106.

¹³ Annually the rice fields in Java are experiencing two cycles of rice planting. During the monsoon season, in December, rice is planted and harvested in May. Through a combination of well irrigated fields (as a majority of the rice fields in Java are), new varieties of rice, and fertilizers, peasants are

of Indonesia the price of rice doubled, and the cost of living index in Jakarta rose by 16% in early November.¹⁴ The crisis was very severe and its impact extended into 1973. The Bangkok market stopped quoting the price of rice from April to December 1973. The international price of rice which stood at \$ 125.00 per ton in 1971 rose to \$ 630.00 during the peak of the crisis in 1973.¹⁵

This unanticipated unfolding of events, combined with a relatively low rice stockpile, forced the government to appeal for help from its traditional foreign suppliers, Japan and the United States, and to shop around for rice in what had essentially become a seller's market. In March of 1973 Japan and the United States informed the Suharto government that their shipments would total only 450,000 tons for the whole year,¹⁶ and the rest of the needed stock had to be bought at market price. Between mid-1972 and mid-1973 one million tons of very expensive rice had to be imported into Indonesia, costing the

usually capable to launch a second planting cycle during the dry season, that lasts from June to September, producing a second rice crop. It was this latter harvest that proved to be a dismal failure.

¹⁴ Leon A. Mears, and Sidik Mulyono, "Food Policy," The Indonesian Economy During the Suharto Era, eds. Anne Booth and Peter McCawley (Kuala Lumpur: Oxford University Press, 1981), p. 29.

¹⁵ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 119.

¹⁶ Ibid., p. 119.

government almost \$ 2 billion¹⁷ which consequently absorbed a good deal of the increase in export revenues during these years.

The Pertamina crisis originated from General Ibnu Sutowo's careless financial dealings. The redistribution of liquidity toward the oil producing countries, and the consequent dramatic increases in the availability of "petro-dollars," led him to believe in the invulnerability of Pertamina's financial and cash-flow position. Sutowo subsequently went into a spending spree, initiating a series of very expensive projects along the way. Some were related to the oil industry, such as obtaining a lease for a tanker fleet that rivalled the Indonesian navy in tonnage,¹⁸ and various petro-chemical plants. Other ventures were totally unrelated to the oil industry such as the construction of Krakatau Steel, the operation of a commercial aircraft fleet that competed against the national airline company, and the development of rice estates in South Sumatra. According to Sadli, then Minister of Mining and Chairman of

¹⁷ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 105.

¹⁸ Ibnu Sutowo planned to increase the tonnage of Pertamina's hire-purchase tankers from 1.6 million dwt in 1975 to 2.7 million dwt in 1979. Unbeknown to the government and many people within Pertamina, there was an additional 3 million dwt capacity which were exclusively Sutowo's property and to be used for spot charter from the Middle East. However, in the wake of the oil crises, a very substantial over-capacity developed in the oil tanker industry, and as a result, Indonesia was burdened with a considerable amount of surplus and idle oil tanker capacity.

Harvey Stockwin, "Why the General had to Go," Far Eastern Economic Review, (March 19, 1976), p. 45.

Pertamina's Board of Directors, "a large part of these activities were not economical."¹⁹ To finance these long term investment projects, Pertamina had no difficulty in borrowing huge amounts of short-term credits on the international capital market and turning over the loans whenever they fell due.²⁰

Ironically, the very increase in oil prices that initially created a welcome stream of cash for Pertamina, subsequently brought recession to Western countries and in turn adversely affected Pertamina's cash flow position and ability to meet its financial obligations. For a time, Pertamina was able to overcome the cash-flow problem by obtaining government approval to withhold tax payments, but in March 1975 the company defaulted on a \$ 60 million loan from a Canadian bank group led by the

¹⁹ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 167.

²⁰ In his defence, Sutowo argued that in 1974 Pertamina had arranged for a 1.7 billion dollar loan whose maturity stretched over a twenty year period. The short-term loans Pertamina obtained were essentially, in his words, "bridging finance." As soon as the long term loan's money was beginning to stream in, Sutowo said that he intended to repay and replace all Pertamina's short term arrangements, except those allocated for working capital purposes. Tragically, the long term loan never materialized.

The loan offer was believed to originate from dubious Middle East sources, and was negotiated through a London based intermediary. It had a low interest rate, the principal and interest was to be repaid in a lump sum at the end of the period. Indeed, the terms of the loan were very attractive. In reality however, the long term loan was never really available, but instead it must have been a scheme fabricated by a bunch of swindlers.

Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," Journal of Southeast Asian Studies, 9, no. 1 (March, 1978), p. 14-15.

Toronto Dominion Bank, and the Indonesian government was obliged to step in.²¹

It took more than a full year before all speculation surrounding the Pertamina affair ended. In May 1976 the government began to reveal the magnitude of the debt and the seriousness of the situation to the public at large. During that time lag, the government hired Arthur Young & Co. to audit Pertamina's books, the first audit since Pertamina's inception,²² and employed the troika of S.G. Warburg of London, Lazard Freres of Paris, and Kuhn Loeb of New York to advise government on devising refinancing strategies that could meet Pertamina's short term obligations. On May 20, 1976, Sadli acknowledged that Pertamina had run up debts of over \$ 10 billion. To this day the government never made public the whole accounting story of the Pertamina affair, but it is estimated that "between March 1975 and the end of the year, perhaps \$ 1 billion, maybe more, was paid out by the government to meet

²¹ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 166.

Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," Journal of Southeast Asian Studies, 9, no. 1 (March, 1978), p. 11.

²² In October 1975, this auditing firm discovered that Ibnu Sutowo's foolish venture into the oil tanker business, with shipping fees plummeting, was costing Pertamina tens of millions of dollars per day.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 167.

Pertamina's short term debts."²³

On top of these two emergency expenditures, during this first sub-oil boom years the government also spent an additional \$ 1 billion to pay for a satellite and various telecommunication equipments. This investment was initiated before the onslaught of the two consecutive crises, but it demonstrates again the free-wheeling spending behavior of the bureaucracy. Procuring a satellite is in itself a questionable venture, given a less developed country's list of priorities. As a result of all these huge expenditures, the country's foreign reserves plummeted from about five months' supply of imports in September 1974 to about one month's supply a year later.²⁴

The direct consequences of this roller-coaster spending pattern were to be reflected in the budget and balance of payments for years to come. Toward the end of 1975, "an atmosphere of austerity which was in sharp contrast to the laxity of two years earlier had come to prevail in policy making

²³ Peter McCawley as quoted by Jeffrey Winters. These payments were only the first stage in what proved to be a four-year process of negotiation and refinancing needed to undo the damage caused by Pertamina.

Peter McCawley, "Indonesia's New Balance of Payments Problem: A Surplus to Get Rid of." Paper presented at Work-in-Progress Seminar, Department of Economics, Research School of Pacific Studies, Australian National University, p. 7.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 106.

²⁴ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 106.

circles."²⁵ The most obvious effect was the contraction of the room for policy manoeuvre that the government would otherwise have had. Especially in the Pertamina case, it became apparent that by allowing a state owned corporation to implement what was virtually a development plan outside of and parallel to the official development plan, the government lost control of a sizable share of the public sector's investible resources.

In the end, these events proved to be a political boon for the economic ministers. Jeffrey Winters describes the political dynamics of this period in the following manner:

The setbacks accompanying the boom permitted the economic ministers at key junctures to reassert their influence over the trajectory of policies concerning the macroeconomy, government spending for development, and to a lesser extent, policies affecting the interests of mobile investors.²⁶

At the initial stages of the first sub-oil boom, the patron-

²⁵ Peter McCawley as quoted by Jeffrey Winters.

Peter McCawley, "Indonesia's New Balance of Payments Problem: A Surplus to Get Rid of." Paper presented at Work-in-Progress Seminar, Department of Economics, Research School of Pacific Studies, Australian National University, p. 9.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 106.

²⁶ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 107.

client factions within the bureaucracy gained the upper hand and they immediately scrambled to gain control over the unallocated windfall resources. That the purchase of a satellite went through indicates that much control over discretion spending had by then already slipped from the hands of Bappenas and the Ministry of Finance. But once the Pertamina fiasco began to have its effect and nervousness about the balance of payments reappeared, the technocrats regained some of their pre-boom control. Needless to say that it was particularly the Ibnu Sutowo patron-client faction that was in total disarray, and Ibnu Sutowo himself was fired by Suharto on February 24, 1976.²⁷

²⁷ Although the Pertamina crisis involved the mismanagement of unbelievable sums of money, the firing of Ibnu Sutowo was long in coming. Most surprising of all, the final straw for removing him had nothing to do with him running the affairs at Pertamina.

Part of Suharto's reluctance to sack him immediately stemmed from Sutowo's strong involvement in strengthening the patronage system itself. Sutowo sat on Golkar board, and was rumored to have been the main source for Golkar funding during the 1971 election. His free handed patronage won him many powerful friends within the power elite.

Unbeknown to many, the real reason for his firing was due to an incident during a meeting of ASEAN (Association of Southeast Asian Nations) leaders in Bali. Sutowo, who had not been invited to the weekend affair, went golfing with Ferdinand Marcos on the last day of the summit. Because Sutowo insisted on playing the back nine, the two were late for closing ceremonies (despite having a Pertamina helicopter to rush them back to the Pertamina cottages where the meeting was being held). The dramatic and embarrassing arrival of the Philippine dictator with Sutowo was too much for Suharto. The Pertamina chief was fired first thing the next morning.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 184-86.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 91.

Events Leading to the Second Sub-oil Boom

In the aftermath of the Pertamina crisis the economic ministers gained the upper hand in controlling the resources, and they generally followed a policy course that was supportive toward market forces. The pendulum, however, quickly swung back in the opposite direction and such a suitable situation was to be short lived. Subsequent political events inadvertently turned back the tide, and gave the patron-client faction of the Suharto regime ample opportunities to challenge head-on the market-based allocations advocated by the ministers.

While infrequently the policy landscape was dotted by a blunder or two, overall, the technocrats succeeded in pushing policy after policy that maintained a competitive and market driven investment climate. In turn this situation had the potential to attract and retain foreign investors. For example, immediately following the Pertamina crisis, the government, which was strapped for cash, suddenly forced a "renegotiation" of the terms of production-sharing with oil companies and in the process imposed higher taxes on them.²⁸ Obviously, these unattractive terms caused a sharp decline in oil exploration, but the

²⁸ In the government view, foreign oil companies were making excessive profits and the time had come to tax them more heavily. Such measures were just and in accord with the new aspirations of developing countries as frequently heard in the calls for a "New International Economic Order."

Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," Journal of Southeast Asian Studies, 9, No. 1 (March 1978), p. 13.

ministers immediately became aware of their misstep and corrected the situation by restoring a number of important incentives to the companies. The technocrats also eased taxes in 1977, and responded to investors' complaints about bureaucratic red-tape by making the Investment Coordinating Board (Badan Koordinasi Penanaman Modal - BKPM) a one stop service in 1978.²⁹

At a wider socio-political level, as early as 1970 public disillusionment with Suharto's rule was apparent. Resentment was particularly strong among students, one of his erstwhile most ardent supporters. Contrary to their initial hopes, the elimination of corruption was not high on Suharto's priority list. Instead, corruption became more institutionalized with army officers and their Chinese business cohorts as the main beneficiaries.³⁰ The influx of foreign investment also led to serious dislocations of the workforce. Sentiments were particularly strong against Japanese investments.³¹ Induced by

²⁹ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 112.

³⁰ Adam Schwarz, A Nation in Waiting (Boulder, CO: Westview Press, 1994), p. 33.

³¹ According to Ali Budiardjo, former director of Freeport-Indonesia, students' resentment was particularly directed toward Japanese investors due to the nature of their investments. Their investments in the food and beverages sector for example, have dislocated many domestic producers. American firms on the other hand, were investing mainly in the oil and mining sectors. Since they were not involved in direct competition against indigenous producers and were not perceived as causing any harm to them, Americans did not bear the brunt of students' anger.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p.

generous investment incentives offered by the technocrats, they were involved in a wide variety of manufacturing industries. When they took on a local partner, as was required by the foreign investment laws, they tended to favor either well connected military officers or leading Chinese Indonesian businessmen. Consequently, the competition originating from this capital intensive quarter dealt heavy blows to small and labor intensive factories owned by indigenous Indonesian entrepreneurs.

Resentment toward the government reached its peak with the arrival of Premier Kakuei Tanaka of Japan for a state visit in January 1975. Thousands of students demonstrated in the streets of Jakarta calling for an end to corruption and disbandment of Suharto's shadowy group of assistants. This anti Japanese and anti government demonstration quickly transformed into street rioting.

Politically and economically, the Malari affair marked a decisive turning point for Indonesian policies. Although Suharto succeeded in quelling the street riots, this uprising had shocked the government to its very roots, particularly in light of its demonstrated inability to maintain law and order during the visit of an extremely important state guest.³² It also showed that eight years of the New Order government had not eradicated sources of violent dissent against its official policies, and

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³² John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 137-8.

that Suharto himself was not immune from criticism even from within the ranks of the army.³³ In other countries, a crisis of this magnitude would have persuaded military rulers to begin withdrawing from the thankless job of governing, and many observers at that time predicted the demise of the New Order regime.

Against these odds, however, Suharto responded with several major new initiatives designed to consolidate his personal rule, and embarked on a policy course that aimed to establish an authoritarian-corporate state.³⁴ He was convinced that allowing factional disputes within the leadership to spill over into society, be they civilian parties, the press, Muslims, or student groups, was very dangerous and could potentially exacerbate existing societal tensions. Hence they should be avoided at all cost. Jamie Mackie and Andrew MacIntyre noticed that the policy

³³ Leading up to and during Malari, behind the scenes, an element of intra-elite rivalry was brewing between two of Suharto's principal subordinates, Lieutenant General Sumitro and Lieutenant General Ali Murtopo. The former looked for support from outside the inner circle, among students and Muslim groups. The latter relied more upon his international backers, particularly in Japan. This power play came to nothing and in the aftermath, Sumitro was dismissed and Murtopo was relegated to the background for several years. In 1978, Ali Murtopo was appointed as minister of information.

Jamie Mackie, "Indonesia Growth and Depoliticization," Driven by Growth: Political Change in the Asia Pacific Region, ed. James W. Morley (New York: Studies of the East Asian Institute, Columbia University, 1993), p. 79.

³⁴ Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s: Authoritarianism, Democracy, and Capitalism, eds. Kevin Hewison, Richard Robison, and Garry Rodan (Sydney, AU: Allen & Unwin, 1993), p. 43-45.

shift after Malari was indeed pivotal:

Intra-elite politics was henceforth to be quarantined from the masses. In that sense Malari marked a decisive shift from the relatively open, pluralistic phase of political life under the New Order towards one in which society-based forces were to be largely excluded and rendered almost powerless to influence state policies or the distribution of power at the top.³⁵

In the months following Malari, twelve newspapers were banned, and hundreds of Indonesians were put on trial for their involvement in the disturbance.³⁶ Campus life grew more subdued and the press became more cautious.

A week after Malari, Suharto announced a hastily assembled package of regulations which on the surface appeared to promote

³⁵ Jamie Mackie & Andrew MacIntyre, "Politics," Indonesia's New Order: The Dynamics of Socio-economic Transformation, ed. Hal Hill (Honolulu, HA: University of Hawaii Press, 1994), p. 14.

³⁶ The student leaders received either relatively light sentences or forced estrangement abroad. Hariman Siregar, leader of the student council at University of Indonesia, was sentenced to six years. But he was released before serving his full sentence and was permitted to finish his medical studies. Syahrir, a young economics lecturer at University of Indonesia was sentenced to six and a half years. Similarly, Syahrir was released before the full six and a half year was over, and send to Harvard to pursue a doctorate. All have since returned to civilian life.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 146.

the interests of indigenous or "pribumi" capitalists.³⁷ The changes conveyed an image of a government that was becoming more attuned to its indigenous constituents. The January Package (Paket Januari), as it became formally known, stipulated that from now on all new foreign investments would need to be formed as joint ventures. It specifically required the foreign investor to take on an indigenous partner (rather than a Chinese) as the local counterpart. When submitting investment proposals, foreign investors would be required to include a concrete plan for the eventual majority ownership by the indigenous side of the venture. Also, foreign investors would be required to transfer shares more widely among their Indonesian workers and not just members of the investing classes. Greater efforts would have to be made to employ Indonesians, and in situations where the necessary skills were lacking, a foreign investor would be required to train them. Incentives like tax holidays and import allowances were gradually to be reduced, and a variety of sectors were going to be restricted.³⁸

As good as this all sounded to the local ear, a closer look indicates that only in the most superficial way did they promote

³⁷ On January 22, the National Economic Stabilization Board (Dewan Stabilisasi Ekonomi Nasional) issued a series of regulations aimed at ensuring domestic equity in foreign investments.

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 189.

³⁸ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 167.

the interests of the indigenous people. Firstly, the fact remained that the country's indigenous capitalists were mostly small, with minimum management and technology skills, and had no access to large capital resources. As such, they were in no position whatsoever to reap the benefits of these new laws. Secondly, although these rules had the potential to create a host of difficulties for foreign investors, appearances were usually worse than reality.³⁹ Business International noted that "Indonesian government policies are not always as definite and inflexible in practice as they may appear when looked at in print."⁴⁰

Indeed, when viewed from a local investor perspective, having a "pribumi" or indigenous identity proved to be the least important factor in determining if she or he would benefit from these new policies. The main effect of the new regulations was rather the opportunities they bestowed on government officials. Suddenly, bureaucrats were armed with tools that made it possible for them to replace the market forms of regulations, so painstakingly nurtured by the technocrats, with their own patrimonial discretion. Hence, a local partner access to these bureaucrats was far more significant than merely having a pribumi identity. With the January Package as a "guide" in their

³⁹ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 190.

⁴⁰ Business International, "Indonesia: Business Opportunities in a Resource-Rich Economy," Business International Asian Research Report, (October, 1975), p. 6.

decision making process, officials scattered all over the bureaucracy would now sit and pore over stacks of paper to determine who would have the best opportunity and terms to invest. But, instead of judging an investor on criteria such as capital adequacy or market strength to enter a given sector, factors such as possessing the right contacts and willingness to pay a "certain" fee were becoming far more crucial.⁴¹ In the end, it was not the indigenous petty capitalists who benefitted most, but the larger domestic capitalists (including Chinese) who possessed strong patronage linkages to the bureaucracy.

At a conceptual and strategic thinking level, the laissez-faire approach advocated by the technocrats was suddenly viewed as inadequate for the development needs of Indonesia. Instead, the thinking shifted to a course where the state itself took a pivotal role in development, the so-called "state-led development" approach. This model of development was strongly influenced by the Japanese Meiji era and the Singapore models, and saw industrialization as the key to development where foreign capital was to be subordinated to national economic planning and state coordination.⁴² This approach was advanced by, among

⁴¹ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 112.

⁴² In a less systematic and coherent manner, up to 1976, this course of development was carried out by Ibnu Sutowo through Pertamina. After the demise of Pertamina, Ibnu Sutowo and his followers were in disarray, and the cause was taken up by the Ali Murtopo's shadowy organization Special Operations (Opsus) and several intellectuals associated with the Centre for Strategic and International Studies (CSIS).

others, Panglaykim and Daud Jusuf, both associated with the Centre for Strategic and International Studies (CSIS).⁴³ Daud Jusuf, for example, was concerned with the dangers that the global economy brought to the Indonesian economy. In particular, he saw the potential for a repetition of the colonial experience and small Indonesian firms subordinated by MNCs - "the Indonesian partners...would serve as a mere 'extension' of the foreign companies."⁴⁴ Therefore Daud Jusuf proposed:

a pattern of close cooperation between the government, bureaucrats, technocrats and businessmen so as to facilitate the development of a power entity on a national scale which can serve as a countervailing power against both multinational corporations and foreign national (read Chinese) enterprises.⁴⁵

The large scale business units that would emerge from this effort would further help small and medium businesses through supplying

Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 152-58.

⁴³ CSIS was the brainchild of Ali Murtopo and a group of Catholic Chinese politicians, most notably the Wanandi or Lim brothers.

⁴⁴ Daud Jusuf, "Knowledge Economy and World Economy," The Indonesian Quarterly, 2, no. 2 (January 1974), p. 41-43.

Quoted in:

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 159.

⁴⁵ Ibid.

them with raw materials and helping them market their finished products. The heart of the plan was a national financial consortium that would make the maximum use of the creditworthiness that Indonesian financial institutions as a whole have among international institutions.

These suggestions of course ran head on against the market friendly predilections and anti-bureaucratic convictions of Wijoyo Nitisastro, Minister of Planning, and Ali Wardhana, Minister of Finance, the most prominent members of the technocrat group and main architects of Indonesian economic policy.⁴⁶ Subsequently Daud Jusuf's proposal, in its original form, never saw the light of day. Nonetheless, Daud Jusuf's ideas as well as Panglaykim's were highly influential in the next round of Indonesia's economic policy making process.

While the reformist critics of the urban intelligentsia were to be effectively obliterated as a political force over the following years, nonetheless, the New Order was brought to a sudden realization that social tension was an integral component of an economic strategy which focused solely on maximum growth. But, instead of following a basic needs type of economic nationalism to lessen such volatility, the period after 1975 saw the emergence of state-led industrial development policies and greater intervention by the state in the planning process. The most important aspects of the strategy were:

⁴⁶ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), 160.

- Emphasis on industrialization with a focus on natural resource processing (natural gas, metals, petro chemicals, oil refining), and basic industries (steel, paper, cement)
- Protection of domestic capital through extending the closure of particular sectors, and devising more stringent joint venture regulations
- A more central role for the state in financing infrastructure, providing credit and indirect investment.⁴⁷
- For political security reasons greater attention was also paid to investment at local and village levels, particularly investments directed at the potentially volatile peasants.⁴⁸

The introduction of these policies took place at the beginning of the second oil price upsurge. This coincidence was quite fortunate for Suharto, for without the support of this tremendous oil revenue, he would not have been able to execute the huge development projects called for by the industrial development

⁴⁷ Richard Robison, Indonesia: The Rise of Capital (Sydney, AU: Allen & Unwin, 1986), p. 168-169.

⁴⁸ Andrew J. MacIntyre, "The Politics of Finance in Indonesia: Command, Confusion, and Competition" The Politics of Finance in Developing Countries eds. Stephan Haggard, Chung H. Lee, and Sylvia Maxfield (Ithaca, NY: Cornell University Press, 1993), p. 160.

policy. Politically, this could have meant that he did not stand a chance at appeasing and winning the acceptance of important middle class factions and keeping other subordinate classes at bay.

In 1978 Ali Murtopo and Daud Jusuf were appointed to the cabinet as Minister of Information and Minister of Education respectively, and opponents of the technocrats regained much ground. One of their more sinister moves was to expand the political patronage system through the creation of Team 10 in 1980.

The Second Sub-oil Boom

Government purchases and spending were traditionally initiated and controlled through a variety of project and activity schemes involving Bappenas, Ministry of Finance, and a number of foreign aid agencies.⁴⁹ While laborious, the process itself was a relatively straightforward affair, involving proposing, bidding, awarding stages, and a post-audit during the implementation

⁴⁹ Government procurement officially came under the DUP/DIP (Daftar Usulan Proyek - Proposed Project List, Daftar Isian Proyek - Filled Project List) and the DUK/DIK (Daftar Usulan Kegiatan - Proposed Activity List, Daftar Isian Kegiatan - Filled Activity List) schemes. This system for handling procurement was emulated from the Government of Pakistan's system via Dick Patten of the Harvard Institute for International Development (HIID), the main foreign consulting group employed by the Ministry of Finance.

Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 126.

stage. The nature of control throughout is macro in character.

Ironically, the idea of a more centralized procedure for carrying out government procurement and project initiation, originated from Wijoyo Nitisastro himself, the most prominent and influential technocrat.⁵⁰ Typical problems in government procurement, such as waste and inefficiencies, was expected to be surmounted by a centralized procedure. However, the technocrats did not anticipate that Suharto, though agreeing with the principles involved, saw to it that it was General Sudharmono and the State Secretariat (Sekretariat Negara - Sekneg) that received the full powers to implement a centralized procurement system. After the Pertamina affair and Ibnu Sutowo's demise, Suharto was tilting toward Sudharmono and Sekneg, whom he anticipated could become his next base for expanding his wealth and political base.

Then, all economic indicators were showing that a second sub-oil boom was in the making and the ministers had little choice but to go along. Like the first sub-oil boom, the ministers were concerned again that a boom would trigger a round of high inflation, and while the country's money supply was sliding upward, ways had to be found to control the subsequent petrodollar circulation in the Indonesian economy. Creating a centralized body that controlled government procurement and project allocation would put at least some drag on money

⁵⁰ Jeffrey Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 125.

spending.⁵¹ Hence, it was the sudden availability of 884 billion rupiahs (or equivalent to \$ 1.4 billion) in unspent government surplus during FY 1979/80 that was the most decisive factor for the creation of a centralized procurement body. To speed the implementation of the Third Five-Year Plan (Rencana Pembangunan Lima Tahun III - Repelita III), a "Crash Program" was initiated.⁵² In 1980, by Presidential Decree no. 10, Team 10

⁵¹ Pangaribuan gave an alternative explanation for the technocrats willingness for giving in to a decision that essentially would jeopardize the functioning of markets and would advance tremendously the powers of the patrimonial officials close to Suharto. From an intra-elite perspective, the constellation of forces arrayed against the economists were immense, and making a pact with the least objectionable group at the time, Sudharmono and Sekneg, was the best option available.

Robinson Pangaribuan, "Perkembangan Kekuasaan Sekretariat Negara Dalam Jajaran Politik Indonesia, Periode 1945-1987," (Jakarta: Master Thesis, Faculty of Political and Social Sciences, University of Indonesia, 1988).

Quoted in:

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 129.

⁵² The official explanation for the formation of Team 10 read as follows: "To guarantee the most efficient use of the substantial Crash Program funds, so that the program can be carried out with the least cost and with the greatest benefit to the country, a team was needed which could work in a coordinated fashion, quick, and effective."

Sekretariat Negara, R. I., "Laporan Pelaksanaan Tugas - Tim Pengendali Pengadaan Barang/Peralatan Pemerintah." Implementation Report, Government Procurement Team - Jakarta (1988), p. 3-4.

Quoted in:

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 130.

was established to control all procurement by the Indonesian government.

Suddenly, phenomenal powers were bestowed on State Secretary Sudharmono and Sekneg. Although Minister Sumarlin, an influential member from the economist camp, was on the team as vice chair, it was Sudharmono who was in charge and almost all of the remaining team members were from Sekneg. The top officials in this team answered directly to the President rather than to Finance, and not even the Coordinating Minister for Economic, Finance, and Industry Affairs was involved.⁵³ Subsequently, a chain of decisions and activities originating from this body proved to be disastrous for maintaining whatever gains had been made in market based regulations for production and commerce in Indonesia. Politically, however, this body succeeded in creating a dependent, loyal, and obedient network of supporters for Suharto.

Gradually, the team's powers were to be extended by Suharto and a metastasis of the team's practices slowly but surely crept throughout the state's machinery. Within six months, the team's jurisdiction was expanded to cover not only ministries and non-departmental bodies, but to encompass all state companies too. Pertamina was of course the biggest prize of all. A year and half later, the team's powers were again enlarged, this time geographically. Provincial governments from now on were forced

⁵³ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 130-131.

to follow the same procurement and tendering procedure that had been adopted by central government. To tighten the team's control and supervision of the execution of development policies in the provinces, in each province of the archipelago a "Coordination Team for the Control and Supervision of Development in Regions" (Team Koordinasi Pengendalian dan Pengawasan Pembangunan Daerah) was formed. The regional teams were empowered to instruct and advise local authorities on "weak economic group" (a euphemism for indigenous) projects.⁵⁴

In 1984 the Team's grip was tightened even more when the President ordered that the threshold for the team's control over contracts awarded without bidding was lowered from Rp. 500 million to Rp. 200 million. It also empowered the team with powers to exercise control over "pre-qualification" processes, determining which firms, from Jakarta down to the provincial level, would be allowed to be on the key lists so that they can participate in project bidding. A heavy blow was dealt Bappenas and Ministry of Finance when in November 1984 a regulation was issued that Team 10 approval was required for all procurement involving the use of foreign credits.⁵⁵

⁵⁴ Ibid., p. 131-132.

⁵⁵ Interestingly, but not surprising, military institutions such as ABRI and Hankam escaped Team 10 control for the longest time, and only as late as 1985 were they put under Team 10 authority.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 132-133.

Despite the team's initial mandate to spend the funds mostly abroad, a stipulation the economic ministers included to achieve their anti-inflationary objectives, several of Team 10's patronage minded officials immediately began looking for ways to spend as much money as possible at home. Team 10 was excellently positioned to become an instrument for building, expanding, and maintaining highly structured patronage structures. First, legislation for setting up the team and Sudharmono's own regulations provided numerous opportunities for discretionary control to be exercised by the officials involved.⁵⁶ In order not to complicate the patronage game, the rules were written so as to allow maximum flexibility to decision makers. In the words of an observer trying to make sense of the rules: "the exceptions for direct assignments (by officials) are extensive and threaten to swallow the rule."⁵⁷ Second, because of the numerous opportunities for exercising control throughout the chain of a bidding process, the officials could easily demand tribute

⁵⁶ A high official in the Ministry of Finance complained to Winters as follows: "Even typewriters were getting purchased centrally. In some cases the delays were years. Sudharmono used this operation to supply contracts to the president's children. He's very dirty." In an attempt to distance the technocrats from Team 10 and the patronage game everyone came to associate with it, the official added, "Doing this was Sudharmono's idea, not Wijoyo's."

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 135.

⁵⁷ Duane J. Gingerich, "Tendering Indonesia: The Legal Framework." East Asian Executive Reports, 4, no. 11 (1982), p. 7.

payments⁵⁸ from firms and investors who desire obtaining lucrative government contracts. At the initial stage of the tendering process, pre-qualification, Team 10 had the discretionary power to determine which firms could get on the list of qualified bidders. At the next stage, evaluation of bids and awarding of contracts, it was again Team 10 which had the last word. Throughout, Team 10 cronies had plenty of opportunities to "consult" with the contractors and negotiate the terms of the tribute payments associated with a particular bid.⁵⁹

The funds that had passed through Team 10's approval process are mind boggling. According to the team's final report, during the eight years of operation, from 1980 to 1988, the Team awarded a staggering Rp. 52 trillion worth of government procurement.⁶⁰

⁵⁸ The usual Indonesian jargon for this practice is "komisi" (commission payment) or "upeti" (tribute paid by subjects).

⁵⁹ A contractor who had a long and profitable association with Team 10, in an interview with Jeffrey A. Winters, explained in great detail the standard practice that they followed. In order to obtain the funds to be shared later, bidders usually inflate the project costs. For example, if the true cost of the project is Rp. 300 million, one could submit a bid of Rp. 500 million. To avoid the possibility of other bidders blowing the whistle, an "old boy" network is established among the contractors, and each received a project work in turns. To seal the agreement among them, naturally the other "bidders" also received a share from the jacked-up sum of money tendered.

Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 136.

⁶⁰ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 134.

To put this amount in perspective, consider that the total discretionary government surplus from FY 1979/80 to FY 1986/87 amounted to only Rp. 39.5 trillion. It is most likely that the gap originated from the funds originating from creditor countries for projects that they were funding. Foreign aid financed projects have to go through a Team 10 controlled approval process too.

The evidence that Team 10 was instrumental in creating a loyal political network for Suharto is overwhelming. Beneficiaries were most often selected for their usefulness in securing political support for the President and Golkar. They consisted of selected groups whom the Suharto regime felt insecure about, and ranged from functional organizations throughout society to political groups in particular geographical areas. It is no coincidence that the period of Team 10 operation also happened to be a time when massive support building for Golkar took place. According to Imam Taufik, an indigenous businessman with extensive knowledge of Team 10's structure and operation, "It was decreed that all purchases by the Indonesian government had to be approved by Sudharmono's office. One reason was to minimize non-Golkar members' access to projects. It's true this was done. For seven years Suharto agreed to this practice."⁶¹ It is therefore of no coincidence that, in addition to his position as chair of Team 10, Sudharmono also made it to the chairmanship of Golkar, the government's party, in 1978.

⁶¹ Ibid., p. 137.

The Indonesian Chamber of Commerce (Kamar Dagang Indonesia - Kadin)⁶² was also utilized both in Jakarta and in the provinces to play a central role in determining which firms and owners qualify as "economically weak" and eligible to receive Team 10 largesse. With all the resources available to Team 10, it was certain that the benefits could be spread around fairly widely. Hence, numerous small and medium firms in the provinces, often with dubious origins, attached themselves to Team 10 resources. They usually operated as sub-contractors to the bigger players from Jakarta, who in turn are linked at the apex to the appanage institutions, Suharto himself, Sekneg, Team 10, Golkar headquarters, and Kadin headquarters. In effect, "the patronage structure in the state was replicated in a parallel structure in the Indonesian private sector."⁶³

Pre-Emptive Compensation toward the Rural Populace

Rice, a primary staple of Indonesians from all walks of life, has traditionally been a critical and moreover a politically sensitive commodity. The New Order regime had pursued a long

⁶² Kadin, rather than representing business interests, is virtually a tool of government. It embodies the state sponsored authoritarian corporatist network and instead of actively promoting the interests of the business community, it served to restrict and contain demand making.

Andrew MacIntyre, Business and Politics in Indonesia (Sydney, AU: Allen & Unwin, 1990), p. 41-43.

⁶³ Jeffrey A. Winters, Power in Motion: Capital Mobility and the Indonesian State (Ithaca, NY: Cornell University Press, 1996), p. 137.

range policy of achieving rice self sufficiency and in the process allocated significant resources in this effort. Such a course could please three core political constituencies: government officials, who received rice as part of their salaries, urban consumers, and rice farmers.

Government officials formed a significant chunk of the Indonesian middle class. Indeed, they made up the largest majority of the government party - Golkar. To them, monthly benefits in the form of rice allotments were fundamental. Urbanites, particularly the inhabitants of Jakarta and other major cities, were also potentially threatening and needed to be placated with a regular supply of rice at a reasonable and stable price.⁶⁴ But it was the last group, the peasants in the hinterlands of Java, that was of utmost concern for the New Order policy makers. Even after PKI had been crushed and organized political radicalism successfully eradicated, the image of wide spread rural support for a mass uprising still exercised a powerful hold on the thinking of the technocrats and interventionists alike. Additionally, the fact remains that two-

⁶⁴ The student demonstrations and street rioting of 1975 may well be associated with the rice crisis of 1972 and 1973, at least in the minds of government officials. Wijoyo Nitisastro, head of Bappenas was quoted as saying that one of the major economic crises was the rice crisis of 1972-73.

Frans Seda, "Catatan-Catatan di balik jendela St. Carolus," Kompas (June 12, 1985), p. 4.

R. William Liddle, "The Politics of Shared Growth: Some Indonesian Cases," Comparative Politics, 19, no. 2 (January 1987), p. 131.

thirds of Indonesia's population is concentrated in Java, which has to this day the most densely populated rural areas in the world. The island's topography and transportation system makes it very easy to move between town and countryside. If satisfactory living conditions in agriculture could not be achieved, farmers and their families could start a mass exodus to the cities. This would result in an economic and political catastrophe that no government could possibly survive.⁶⁵

Therefore, while money distribution through Team 10 procurement schemes were specifically designed to win political loyalty from selective and mostly urban middle class groups (including the bureaucracy themselves), the government also wanted to ensure that rural populations were kept at a minimally possible level of satisfaction. The aim was to reduce rural poverty and not necessarily the degree of rural-urban inequality. The policy emphasis was therefore on raising the absolute standard of living rather than on improving the relative standard of living.⁶⁶ To achieve this purpose, the government pursued a pro-active policy that combines input subsidies, price supports, and infrastructural provision for peasants.

⁶⁵ R. William Liddle, "The Politics of Shared Growth: Some Indonesian Cases," Comparative Politics, 19, no. 2 (January 1987), p. 131.

⁶⁶ Wing Thye Woo and Anwar Nasution, "Indonesian Economic Policies and Their Relation to External Debt Management," Developing Country Debt and Economic Performance: Country Studies - Indonesia, Korea, Philippines, Turkey, eds. Jeffrey D. Sachs and Susan M. Collins (Chicago, IL: University of Chicago Press, 1989), p. 77.

On the input side the government provided farmers with cheap finance to buy fertilizers, while on the output side the State Logistics Body (Badan Urusan Logistik - Bulog) was assigned with implementing a price stabilization program. In this latter scheme, Bulog bought rice from the farmers at prices set and subsidized by government. In a country where the state has traditionally carried out a high level of intervention in credit markets, it is interesting to observe that farmer preferential credits and Bulog's price stabilization program stood out as the principal targets of central bank credit subsidies.⁶⁷ This suggests that farmers had consistently received favorable treatment from government.

As the floor price increased and the subsidy of fertilizer prices continued, the yields of the rice fields on Java became the highest in tropical Asia, and national production registered annual records. Between 1966 and 1988, Indonesia had experienced a doubling of its crops, from 10.8 to 25.5 million tons.⁶⁸

⁶⁷ Throughout the oil boom period the largest fund allocation by the central bank was toward the rescue operation for the debt-stricken Pertamina.

Andrew J. MacIntyre, "The Politics of Finance in Indonesia: Command, Confusion, and Competition," The Politics of Finance in Developing Countries, eds. Stephan Haggard, Chung H. Lee, and Sylvia Maxfield (Ithaca, NY: Cornell University Press, 1993), p. 148-150.

⁶⁸ Most observers, including critics, considered this feat to be Suharto government most significant achievement.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 124.

R. William Liddle, "The Politics of Shared Growth: Some

Notwithstanding these successes, needless to say that again, as was the case in other state sponsored financial schemes, there are strong doubts whether the nominal targets, the rice farmers in this case, were in fact the actual recipients of subsidies or whether the benefits of the subsidies dissipated somewhere along the credit pipeline. As Andrew MacIntyre describes it:

the entire system of preferential credit, by its very nature, was an invitation for malpractice and corruption. The difference in price between a subsidized loan and the market rate was essentially a rent to be shared between the loan officer and the borrower. Bank officials therefore had a material interest in lending to customers not falling within a priority category if such customers were prepared to allow them a generous slice of the rent arising from the interest differential.⁶⁹

Rent diversion of this sort was rampant throughout the bureaucracy and not only confined to bank officials. Stories

Indonesian Cases," Comparative Politics, 19, no. 2 (January 1987), p. 131.

Leon A. Mears and Sidik Mulyono, "Food Policy," The Indonesian Economy during the Suharto Era, eds. Anne Booth and Peter McCawley (Kuala Lumpur: Oxford University Press, 1981), p. 40-46.

⁶⁹ Andrew J. MacIntyre, "The Politics of Finance in Indonesia: Command, Confusion, and Competition," The Politics of Finance in Developing Countries, eds. Stephan Haggard, Chung H. Lee, and Sylvia Maxfield (Ithaca, NY: Cornell University Press, 1993), p. 151.

abound where banks were "ordered" to make finance available on most favorable terms to supporters, relatives, or cronies. It was patrimonial needs again that took precedence over the official policy of favoring rice farmers.

Therefore, a more in-depth analysis revealed that the overall results of this rice policy were somewhat mixed. While the policy had clearly benefitted both urban consumers and civil servants through provision of a steady and subsidized rice supply, it seems that only a minority of farmers, usually the larger ones, were the real beneficiaries of this policy. Studies of village economies found that the majority of poor villages were only slightly less poor than before, while others had become significantly richer.⁷⁰ Similarly, Anne Booth observes the following:

The growth in foodcrop production, while leading to improved food consumption for the masses, has consolidated the position of larger landowners (in Java often village officials) whose incomes and status in rural society the central government wishes to protect as a bulwark against the resurgence of the kind of radical rural protest movement which swept much of the

⁷⁰ Leon A. Mears and Sidik Mulyono, "Food Policy," The Indonesian Economy during the Suharto Era, eds. Anne Booth and Peter McCawley (Kuala Lumpur: Oxford University Press, 1981), p. 43.

country in 1960s.⁷¹

Of course, those who benefitted most were among the government's strongest political supporters in the villages, and that seemed adequate for government political purposes, because parallel to these constituent friendly policies, the government embarked on a political enterprise that will put in place a strong corporatist system, one that reached to the lowest and most remote levels of the Republic.

Toward a Corporatist State

If on the economic front, the state pursued policies that allowed patrimonialism to expand and to reach almost institutional proportions, politically, the government continued to pursue a policy of political repression and managed political participation. On top of this, the government added a fourth platform, namely ideological control.

After the Malari affair, student activists were the first to be alienated, then the Muslims, later many among the intellectuals and professional middle classes, and finally, even a number of retired senior army officers who had been prominent in the founding of the New Order. Through his hard line

⁷¹ Anne Booth, "The State and Economic Development in Indonesia: The Ethical and New Order Eras Compared." Observing Change in Asia: Essays in Honor of J.A.C. Mackie eds. R.J. May and William J. O'Malley (Bathurst: Crawford House Press, 1989), p. 122.

education minister, Daud Jusuf, Suharto imposed stringent curbs on student activism, and in 1978 their movements were confined to the enclosure of university campuses. Another serious challenge to Suharto personally arose from retired officers in 1979. They were particularly concerned with the ways in which the reputation of the armed forces were being damaged. Through too close an association with the dubious business and political dealings of the Suharto family and their cronies, the army was losing the trust of the Indonesian people and they voiced these concerns in a declaration titled: "The Petition of Fifty" (Petisi 50).⁷² The President fought back and cracked the whip at them. In a major speech to army officers, he warned them that if they continued to criticize him or his policies they would put themselves out of the system of privileges and rewards, whereas if they were willing to work within its constraints they could expect keep on enjoying them. Not much has been heard from this Petisi 50 group since then.⁷³

The political order was also revised through passing a new law that regulated political parties and Golkar in 1975. It constrained parties to such a degree that it would be impossible for parties to win in an election. First, party activities were not permitted in rural areas where the bulk of the population

⁷² Fifty is the number of retired officers who signed the petition.

⁷³ Jamie Mackie, "Indonesia: Economic Growth and Depoliticization," Driven by Growth: Political Change in the Asia Pacific Region (New York: Studies of the East Asian Institute, Columbia University, 1993), p. 83.

lived. The rural population was declared a "floating mass" (massa mengambang).⁷⁴ This meant that rural people were not to be drawn into political activities, except at election time. The pretext for this is that the masses were supposed to focus their energies on the more urgent tasks of economic development, hence their attention should not be distracted. Second, electioneering periods and election rules became even more tightly controlled. Electioneering was limited to only a six week period. Contestants were not permitted to question the "Broad Outlines of State Policy" (Garis-Garis Besar Haluan Negara). The list of candidates from each party and all electoral material need to be submitted to an electoral commission in advance for approval.⁷⁵

The clearest sign that a corporatist format was being pursued came with the increased prominence given to the state ideology,

⁷⁴ The Catholic Chinese activists who were closely associated with Ali Murtopo, helped fashion this new political concept. They feared that the Muslim majority could conceivably stir up the population against the Christian minority. Hence, through the "floating mass" concept, the interests of a Christian and mainly Chinese minority dovetailed neatly with a military establishment fearful of a Muslim political revival.

Michael R. J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1993), p. 94.

⁷⁵ The electoral commission regularly struck off individuals it regarded as undesirable, particularly members of parliament who had shown too much independence during their term in office.

Robert Cribb and Colin Brown, Modern Indonesia: A History Since 1945 (London: Longman, 1995), p. 131.

"Five Rules" (Pancasila)⁷⁶ after 1974. Through the work of a commission appointed by Suharto, Pancasila was transformed into a practical guide for life and politics in Indonesia. In 1978, the parliament passed a law recognizing Pancasila as the sole guiding principle for social and political activity in Indonesia. An intensive program was begun to train government officials at all levels in the details and implementation of Pancasila.⁷⁷ The New Order began a comprehensive campaign to ensure that all Indonesians understood their proper place in society. Students were informed without ambiguity that their task was to study and acquire skills which might later be useful for development. Women were instructed that their primary role was as wives and mothers, sustaining their husbands in work and bringing up their children to be good citizens. Workers in the growing industrial sector were told that they should pursue claims on their employers through what were called "Pancasila Industrial Relations" (Hubungan Kerja Pancasila), which emphasized the paternal role of employers in deciding what were the appropriate conditions and wage of workers, and which tolerated strikes only

⁷⁶ The policy content of Pancasila constitutes of fairly bland generalizations about belief in one God, humanism, national unity, social justice, and democracy in one God, principles that may be found in most other national ideologies.

⁷⁷ A special course: the "Course for Guiding the Internalization and Deepening of Panca Sila" (Kursus Pedoman Penghayatan dan Pendalaman Panca Sila - Kursus P4), was designed for this purpose.

under the most unusual circumstances.⁷⁸

Having already weakened the political parties considerably during the pre-1974 New Order reign, the channelling of political participation was gradually to be contained in a network of state sponsored corporatist organizations. This move was carried out across a wide and encompassing political spectrum, excluding only Muslim and nationalist-leftist groupings. The state either established new organizations or designated existing ones as the official representative body for particular functional categories.⁷⁹ For example, almost every business or professional sector had its separate association. A small, random selection might include - the Architects' Association, the Coffee Exporters' Association, the Real Estate Association, the Bankers' Association, the Doctors' Association.⁸⁰ This extensive network of corporatist organizations was designed to facilitate state control by ensuring that societal demand-making was contained within these largely compliant organizations. As Andrew MacIntyre observes, the most debilitating consequence of

⁷⁸ Robert Cribb and Colin Brown, Modern Indonesia: A History since 1945 (London: Longman, 1995), p. 137.

⁷⁹ Andrew MacIntyre, "Power, Prosperity, and Patrimonialism: Business and Government in Indonesia," Business and Government in Industrializing Asia, ed. Andrew MacIntyre (Ithaca, NY: Cornell University Press, 1994), p. 252.

⁸⁰ Particularly the business associations are further positioned under the auspices the Chamber of Commerce and Industry (Kamar Dagang dan Industri - Kadin).

Andrew MacIntyre, Business and Politics in Indonesia (Sydney, AU: Allen & Unwin, 1990), p. 40-41.

this state structured and highly restrictive political framework is "that it has encouraged traditional patrimonial or clientelistic patterns of political participation to endure."⁸¹

Conclusion

In the 1977 election, shortly after the Malari affair, the government perceived that the political threat originating from the Islamic quarter as quite serious. In that election, the United Development Party (Partai Persatuan Pembangunan), the sole recognized Islamic voice in the Indonesian political system, not only increased its total vote somewhat, but proved to be by far the most effective vehicle for expressing opposition to the government. It succeeded in showing its potential as the most stubborn rival to Golkar. This form of opposition took place in spite of the intensive controls that government exercised on the election process, in spite of the widespread intimidation, and in spite of vote rigging by government operatives. As such, it was quite a shocking experience for government.⁸² After a relatively tense and troubled People's Consultative Assembly (Majelis Permusyawaratan Rakyat - MPR) session in 1978, Suharto was nominated and duly elected as President for another term.

⁸¹ Andrew MacIntyre, "Power, Prosperity, and Patrimonialism: Business and Government in Indonesia," Business and Government in Industrializing Asia, ed. Andrew MacIntyre (Ithaca, NY: Cornell University Press, 1994), p. 253.

⁸² Golkar suffered a slight decline in its vote getting, from 63% in 1971 to 62% in 1977, hardly a disaster under fair and open circumstances.

The situation, however, was totally the opposite during the 1982 elections and MPR session in 1983. Both the election and session posed no problem whatsoever for Suharto and they passed without a single hitch. So did the same set of processes five years later. Why the turnaround?

The answer lies in the systematic cooptation and compliance securing process that was launched during the latter half period of the seventies and early eighties. Aided by what seemed like a bottomless source of money, Suharto succeeded in "buying" loyalty from smaller but highly important groups of constituents. Whereas the New Order regime started out with a fairly broad base of popular support from anti-Communist and anti-Sukarno elements in its early years, since 1974 that base had narrowed considerably. Many of its former supporters have moved into critical or overtly opposition camps.⁸³ Through a combination of largesse distribution and restructuring of the whole political system, Suharto expanded his political base in a different direction. This time it expanded toward selective middle class groups who are mostly associated with the business sector, while simultaneously maintaining support from his other two traditional supporters, the armed forces, and the bureaucracy.

The most important effect of the oil boom was that for the first time since independence, the government was no longer tightly constrained and was awash with abundant funds to pursue

⁸³ Dissatisfied supporters have ever since abstained from voting altogether and they call themselves the White Group (Golongan Putih - Golput).

ambitious spending plans out of domestic resources. In place of a poorly paid and ramshackle bureaucracy that was almost paralyzed to implement any public policy plans in the 60s, emerged a government apparatus that was capable of extravagant spending. Its ability ranged from distributing big contracts to allocating cheap bank credits, and in the process satisfying a significant number of new constituents - regional authorities, private firms, and the more elite factions in rural areas. In both respects the power and patrimonial character of the state was greatly enhanced.

Therefore, it is hardly surprising that very little structural change has taken place in Indonesia despite the impressive economic growth. While there is no question that Indonesia has undergone rapid economic development, and the business, middle, working classes have expanded, nonetheless, structural change has not been close to what South Korea, Taiwan, or even Thailand have experienced.⁸⁴ Parallel to this economic growth, capital development in Indonesia was marred by patrimonialism, collusion, and corruption. Therefore, the social classes or interest groups that emerged have not developed as significant and assertive actors on the political stage. Instead, they have proven to be extremely puny and ineffectual vis-a-vis the state. They have all tended to rely on personalistic political connections with

⁸⁴ Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s, eds. David Bourchier and John Legge (Clayton, AU: Monash University, Center of Southeast Asian Studies, 1994), p. 116.

the bureaucracy and the military, and were incapable of playing any significant political role. Even merely pressing for increased predictability, rationality, and regularity in running the state's administration seems like a far-fetched ideal under these circumstances.

Chapter Four

The Social and Political Implications

Surging oil prices and the consequent boom in state revenues since the early seventies enabled the Indonesian state to finance an ambitious state-led development program with emphasis on import substituting industrialization (ISI). The government pursued an industrialization policy built around large projects for production of capital and intermediate goods. For President Suharto and many of those who control public office, command over this source of huge revenues had simultaneously created an opportunity to appropriate the offices of the state and independently exercise authority over the allocation of resources and access.

Under such conditions, relations between state and capital were markedly characterized by the emergence of a pact of domination among politico-bureaucrats, an upper bourgeoisie of major domestic client corporate groups,¹ and those elements of

¹ Besides gains incurred through patrimonial relationships, private capital enjoyed the benefits of the oil boom in three main ways, tax holidays in state promoted fields, heavily subsidized borrowing from state banks, and direct as well as indirect effects of government expenditure expansion. Yuri Sato estimated that in 1986 there were 47 business groups (or commonly referred to as "konglomerat," jargon adopted from the English word: conglomerate) in Indonesia with the smallest of them having a sale figure in excess of 100 billion rupiahs.

Andrew MacIntyre, "The Politics of Finance in Indonesia: Command, Confusion, and Competition," The Politics of Finance in Developing Countries, eds. Stephen Haggard, Chung H. Lee, and Sylvia Maxfield (Ithaca, NY: Cornell University Press, 1993), p. 143, 152, 153.

international capital that are integral to the state's industrial strategy: oil companies and manufacturing investors.²

Politically, this patron - client system was shielded from other social forces through an effective corporatist political structure. This structure consisted of numerous professional and business institutions capable of co-opting, confining, and containing the political and ideological proclivities of other extra-state actors.

Since the state actively nurtured capitalist development, the bourgeoisie, the urban middle classes, and even the rural elites and the petty bourgeoisie have been heavily dependent upon the state for a variety of preferential treatments: monopolies, contracts, jobs, careers, credits, and subsidies. The state, in a patrimonial fashion, was the engine of economic growth. Therefore, important segments of the Indonesian society have been reluctant to upset the balance of power, and challenge the legitimacy of the state and its accompanying politico-bureaucrat power.

After 1982, the oil price gradually dwindled and it had a dramatic effect on Indonesia's foreign exchange earnings and

Yuri Sato, "The Development of Business Groups in Indonesia: 1967-1989," Approaching Suharto's Indonesia from the Margins, ed. Takashi Shiraishi (Ithaca, NY: Southeast Asia Program, Cornell University Press, 1995), p. 118-120, 136.

² Richard Robison, "Authoritarian States, Capital Owning Classes, and the Politics of Newly Industrializing Countries: The Case of Indonesia," World Politics, 41, no. 1 (October 1988), p. 71.

state revenues, both of which went into a deficit.³ The government could not afford to underwrite the industrialization program in its entirety anymore, and it was forced to look for an alternative domestic non-oil tax base. The state began to look at domestic private capital as this sector had the most potential to shoulder a greater share of the investment burden. The growth of an export-oriented manufacturing sector was suddenly necessary to ensure continued capital expansion. To achieve this, efficiency-oriented policies were needed, and in essence such measures boiled down to efforts aimed at deregulation of the economy on one hand, and regularization of the state apparatus on the other.⁴ Consequently, a shift was imminent in the relationship between state and capital, and a weakening of the politico-bureaucrat position became a real possibility.

Within power elite circles this dilemma became an intensely debated issue, particularly between the market oriented economic planners and the patron - client networks within the state. Reform measures to entice the private sector were introduced incrementally throughout the eighties and early nineties,⁵ and every time certain well entrenched and powerful elements in the state as well as their clientele were sacrificed. The reform policies consistently strived for increased efficiency in the

³ Ibid., p. 66.

⁴ Ibid., p. 73.

⁵ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 262-264.

procurement of materials and the production of goods.

Nevertheless, the resilience and strength of the patrimonial system so carefully nurtured during the oil boom period proved to be formidable. Advocates of the state-led industrialization policy continued to present strong defenses, and only with great reluctance did the state postpone or abandon major industrial projects. Ultimately, despite the fiscal pressure and increasing reliance on foreign loans, the state has continued to fund key areas of investment in the capital and intermediate goods sectors. But, this time, the magnitude of state involvement was no longer as exorbitant as during the oil boom days.

It is clear that the state's autonomy and power to determine the structure of capital ownership and investment through regulation and allocation of resources have been diminished somewhat, as has the power of officials to appropriate the authority and resources of public office. However, this transformation has been achieved as a consequence of structural pressures on the Indonesian economy only, and did not result from a wider political struggle. Throughout the deregulation period in the eighties, neither the capital-owning class as a single entity, nor any of its factions were able to impose institutional and instrumental dominance over the state apparatus. Hence, it is unlikely, under current conditions, that the Indonesian bourgeoisie is capable and willing to demand more far reaching political reforms should such pressures arise in society.

The middle class - professionals, small businesspeople, white

collar employees, students etc. - is another force often regarded as having the potential for pushing political reform and democratization. The economic boom in the latter eighties, brought about by the deregulation policies, has greatly expanded employment opportunities in the private sector. Demand for skilled managerial, technical, and sales personnel was growing by leaps and bounds throughout the eighties and nineties.

Still, in terms of its size relative to the total work force and in comparison to Indonesia's neighbors and their middle class, this class is still small.⁶ Additionally, attitudinal surveys revealed that materialism still overshadows democratic ideals among many members of this class.⁷ Concern for career ambitions and cultivation of a "yuppie" lifestyle have replaced traditional middle class solicitude for social justice and human rights. The new middle class, it is argued, is prepared to fight for only narrow personal interest and not abstract ideals.⁸ To many commentators, this is not surprising considering that the middle class had, to a large extent, been the creation of the

⁶ Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 77.

⁷ Throughout the eighties and nineties the middle class has been of considerable interest to the Indonesian media. In their efforts to appeal to middle class readers, newspapers and magazines have tended to focus on self-congratulatory stories of talent, and success. To a more sophisticated reader these stories often border on snobbishness.

⁸ Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 85.

state, and consequently it sees its opportunities within the channels of state institutions and the confines of the state's ideology.⁹

This leaves only a number of small and fractionalized student movements among the middle class that are preoccupied with reform politics, and they have become more radical through the latter years of the New Order reign.

The working class has also been growing in size incrementally¹⁰ and although the government was quite taken aback with the rise of labor activism in the late eighties and early nineties, this class still suffers from inability to mobilize and organize. It still remains to be seen if workers are able to develop the level of sophistication necessary to exert pressure for reforming the state-capital-labor relations in a manner that is more accommodating to labor interests.

In terms of grass roots politics, lately, there has been a reawakening of Sukarno's image. His charisma, his charm, and his legendary oratorical prowess have made him a natural target for

⁹ Assessments made by Ignas Kleden and Taufik Abdullah in *Kompas*, October 2, 3, 9, 1989.

Quoted in:

Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," *The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution* eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 100.

¹⁰ Gavin W. Jones and Chris Manning, "Labor Force and Employment During the 1980s," *The Oil Boom and After: Indonesian Economic Policy and Performance in the Suharto Era* ed. Anne Booth (Singapore: Oxford University Press, 1992), p. 390.

romantic reflection in today's Indonesia.¹¹ A huge majority of Indonesia's middle and lower classes have translated this yearning into political support for Megawati Sukarnoputri, the daughter of the late president. If there is such a possibility as a grass-roots movement and revolution in present-day Indonesia, it is perhaps Megawati who could bring together the forces that have laid dormant for so long and are outside the state, and mold them into a powerful opposition force against Suharto's rule.

In sum, the New Order has effectively co-opted key elements of Indonesian society into the existing power structure. Even after passing through economy deregulation measures which gave the private sector a considerable portion of the economy, the authoritarian-corporatist structure has not budge. Although a number of extra-state actors are increasingly exercising pressures on the state, each also remains fragmented, politically disorganized, and therefore excluded from formal, class based political activity. Indeed, the socio-political system has constantly rewarded those who conform or at least do not rock the boat, and penalized dissidents or critics severely. Hence, the costs of any individual opposing the system are high. The authoritarian-corporatist state structure has so far proved able to sustain these pressures in the face of a continuous capital expansion and accompanying social changes.

¹¹ Karen Brooks, "The Rustle of Ghosts: Bung Karno in the New Order," Indonesia, 60 (October, 1995), p. 63.

Besides these structural pressures on the state for greater openness, the New Order regime has also experienced several intra-elite ruptures. The most notable and exposed one was between President Suharto and his armed forces chief of staff, General Benny Murdani. Although this conflict has created openings for the participation of certain extra-state actors in the power struggle, they proved to be a negligible power and did not make a dent on the existing strength of the authoritarian-corporatist state.

Currently, a currency and fiscal crisis is clouding the economy of Indonesia. But all indications show that Suharto and his New Order regime will be able to ride through the storm once again. In no small measure is this possible due to the strength and resilience of the state structure, and simultaneously, the weakness and fractionalized nature of the opposition.

In the following sections, first, the workings of the notorious and in-efficient Indonesian patrimonial system will be illustrated through two industry cases. Next, the economy deregulation measures of the eighties, and each of the class based pressures upon the state is going to be analyzed in more detail. Lastly, the intra-elite conflict and the current economy crisis and their respective implications on the state-society relationship will be delved into.

Two Industry Cases: Examples of Patrimonialism

By the early eighties, patrimonialism had transformed the Indonesian economic system into a structure that was markedly characterized by alliances between politico-bureaucrats who controlled the state apparatus, and an upper-bourgeoisie of major domestic corporate groups. This relationship was based on a complex conjuncture of interests, and together these powerful groups have controlled almost every strategic sector of the Indonesian economy.

In the steel industry for example, Krakatau Steel, the state-owned steel corporation, produced as well as controlled the import of hot-rolled steel. Another company, Giwang Selogam, this one privately owned, was given a monopoly over the import of cold-rolled steel, a product which a sister company of Krakatau Steel - Cold Rolling Mill Indonesia Utama - planned to begin producing in 1987.¹² What was more remarkable in these arrangements than the monopolies themselves, were the key figures involved. Chairman of the board of Giwang Selogam happened to be Liem Sioe Liong or Salim, a very close business associate of

¹² Through these import monopolies, these corporations collected a commission of \$ 20.00 for each ton imported and on top of that, a "handling fee" amounting to 2.5% of the value. To put this in perspective, in 1984/85 alone Indonesia imported more than \$ 400 million cold-rolled steel.

Steven Jones and Raphael Pura, Asian Wall Street Journal, November 24, 1986.

Quoted in:

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 250.

Suharto, who held a 20% interest in the firm. The executive director was a Suharto relative, Sudwikatmono, who held another 6.7% of total shares. The rest were held by relatives and business associates of Liem. Similarly, Liem held substantial interests in Cold Rolling Mill Indonesia Utama, a joint venture between Krakatau Steel and Liem Sioe Liong.¹³ A World Bank report estimated that these import arrangements raised the domestic steel prices 25 to 40% above international levels, and the lead time on orders through these intermediaries increased to seven months, twice the time required when producers could import on their own.¹⁴ The steel import monopoly worked badly for the industry and its consumers, while profiting handsomely the monopolists involved - a costly state enterprise and a bunch of cronies closely associated with the president. Both latter parties were earning easy money without performing any economic services.

¹³ In 1989 Liem Sioe Liong was the single richest private person in Southeast Asia, and had already attained status as one of the world's fifty billionaires, with a net worth in excess of \$ 2 billion. His operations were reported to have a total turnover of about \$ 8 billion in 1990, accounting for about 5% of Indonesian GDP.

Forbes, July 24, 1989, p. 210.

Adam Schwarz, "Empire of the Son," Far Eastern Economic Review (March 14, 1991), p. 46.

Steven Jones and Raphael Pura, "Power and Privilege: Jakarta's Policies Help Suharto Kin to Prosper," The Asian Wall Street Journal Weekly, December 1, 1986, p. 17.

¹⁴ Steven Jones and Raphael Pura, "Power and Privilege: Jakarta's Policies Help Suharto Kin to Prosper," The Asian Wall Street Journal Weekly, December 1, 1986, p. 17.

The domestic plastic industry was another lucrative target for this type of cronyism. Import of a variety of basic materials for the production of plastic was placed under government control in 1984. Three state-owned corporations, Panca Niaga, Cipta Niaga, and Mega Eltra were given the import rights for polyethylene, polypropylene, polystyrene, and polyvinyl chloride. Each was given a certain import quota and the Minister of Trade statement justifying these measures read as follows: "to give operating assurances to the domestic plastics industry...and to assure the continuous availability of its basic materials."¹⁵ However the anti-market measure did not stop there, and another layer of monopoly control was introduced into the plastic material import pipeline. In March 1985, the Minister of Trade ordered the three state corporations to appoint a single private company as their sole agent for all plastic imports. The agent was to be Panca Holding Ltd., based in Hongkong. Not surprising to anyone familiar with Indonesian business practices, this company was under directorship of the same Sudwikatmono, and ownership was in the hands of two shadow corporations registered in Vanuatu. Members of the board of directors of these latter

¹⁵ Minister of Trade, "Surat Keputusan Menteri Perdagangan no. 1200/Kp/X/1984."

Quoted in:

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 248.

companies included Bambang and Sigit, Suharto's sons.¹⁶

Since all manufacturers of plastic products have established long-term relationships with their traditional foreign suppliers and continued to do so within this new constraining environment, there was no new and necessary function performed by either the state trading companies or Panca Holding, except for passing the orders along. A survey of plastic industry executives in fact found that this unnecessary layering led to obvious inefficiencies. Because paperwork slowed down considerably, lead time on orders was lengthened by a full month. Also, when the goods arrived, the documents necessary to clear them through customs were seldom ready, which means added in-port storage costs for the manufacturers. It was estimated that Panca Holding earned \$ 30 million for its role in handling this paperwork in 1985. As industry unhappiness grew, the quota holders were reduced in August 1986 to only two players, Mega Eltra and Panca Holding. Following a rupiah devaluation in late 1986, they did lower their fees by half, offering a lame and unconvincing reasoning - "to help the industry."¹⁷ Hence, the whole issue of

¹⁶ The state trading companies charged an import fee approximately \$ 23.00 a ton, Panca Holding charged an additional \$ 70.00 a ton plus 2% of the transaction value. In 1986, with polyethylene selling at about \$ 500 per ton, these markups added 21% to the importing cost.

Steven Jones, "Price of Protection? Indonesia's Sole Plastics Importer Adds to Cost Burden on Factories, Consumers," Asian Wall Street Journal Weekly, December 1, 1986, p 20, 21.

¹⁷ Steven Jones, "Price of Protection? Indonesia's Sole Plastics Importer Adds to Cost Burden on Factories, Consumers," Asian Wall Street Journal Weekly, December 1, 1986, p 20, 21.

plastics monopoly was in the end a scheme that had little to do with facilitating a domestic industry, but a lot to do with making money for Suharto's family and friends.

Economy Deregulation Measures of the Eighties

As noted earlier, the oil-boom of the seventies has yielded a strong economic elite comprising politico bureaucrats and a bourgeoisie of major corporate groups. The early 1980s, however, was marked by a general world recession, and the powerful alliances within the Indonesian economic system were soon to be threatened by a complex of external elements. Combined with an overproduction by OPEC members and an oil glut on the European market, the trusses under the mighty petrodollar structure that was firmly in place throughout the seventies finally gave way. In 1982, the oil price started to decline from \$ 38.00 to \$ 28.00 per barrel, and in early 1986 it collapsed further to \$ 12.00 before climbing slowly to \$ 18.00.¹⁸

These setbacks had dramatic effects on Indonesia's foreign earnings and state revenues, both of which went into deficit. In the past, surging oil prices and a consequent boom in state revenues had allowed the state to build political and economic structures that were extremely powerful but exclusionary in character. These external events started to cause some cracks in

¹⁸ Richard Robison, "Authoritarian States, Capital Owning Classes, and the Politics of Newly Industrializing Countries: The Case of Indonesia," World Politics, 41, no. 1 (October, 1988), p. 66.

these arrangements. The changing external economic environment brought to the surface the latent contradictions between capital and state, and further re-started the political conflict over economic policy among the actors involved.

When the threat of balance of payments deficits and fiscal pressures loomed once again over the Indonesian economic horizon, the struggle over policy and the efforts to shift the economy toward a less protected one were sparked once again. Finding themselves favored by the new economic situation, proponents of market forces, particularly the technocrats who were supported by international capital elements, argued for drastic deregulation measures on the Indonesian economy. Sumitro, the old PSI activist and the most senior technocrat-economist, became increasingly vocal in calling for the dismantling of large protected industries and a shift in policy toward export-oriented production based on specific Indonesian comparative advantages.¹⁹ For almost five years, the struggle over economic

¹⁹ This time the inner-elite policy conflict was between the economists, led by Ali Wardana and Sumarlin, and the "engineers," a group of ministers involved in industrial development. This latter group was led by Habibi, the controversial Minister of Research and Technology, and simultaneously head of the state aircraft industry. Other prominent figures in the engineer camp included Ginanjar Kartasasmita, Minister for Domestic Product Promotion and Head of the Capital Investment Coordination Board, and Hartarto, Minister of Industry. Ginanjar had earlier worked for Pertamina and the infamous Team 10.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 260.

Sumitro Joyohadikusumo, "Kebijakan Perdagangan dan Perindustrian Tidak Sejalan dengan Kebijaksanaan Pemerintah"

policy was one of the most public and controversial aspects of Indonesian political life.²⁰

A very dramatic turnaround in policy took place in 1985. The the government decided to take the responsibility for assessment of import duties away from the notoriously corrupt Customs and Excise Directorate (Direktorat Bea dan Cukai), and employed a Swiss agency, Société Générale de Surveillance,²¹ to take over this task. Such a decision sacrificed certain well-entrenched and powerful elements in the department and send a clear signal to the private sector community that government was serious in attaining a higher degree of efficiency.

For the corporate sector, an important policy change was introduced by the government on May 6, 1986, and commonly referred to as Pakem (Paket Mei Enam, or May 6 Package). Its primary purpose was to encourage investment in manufacture and facilitate an export oriented production system. Pakem enabled

(Trade and Industrial Policy are not Consistent with Government Strategy), Kompas (August 23, 1985), p. 1, 12.

Richard Robison, "Authoritarian States, Capital-Owning Classes, the Politics of Newly Industrializing Countries: The Case of Indonesia," World Politics, 41, no. 1 (October, 1988), p. 69.

Anthony Rowley, "Economic Schizophrenia," Far Eastern Economic Review, (September 10, 1987), pp. 70-76.

²⁰ The level of passion and sensitivity involved in this conflict can be gauged by the fact that one of the largest and most influential newspaper in Indonesia - Sinar Harapan, was banned 1986. It published a news story that the government was set to abolish all non-tariff import barriers.

²¹ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 56.

producers who exported 85% of their products to avoid sole importers and deal directly with foreign suppliers. Also they were exempted from paying import duties on inputs used for export production. To encourage foreign investment, an export-processing zone was proposed for Jakarta, and the number of business areas opened to foreign investment increased from 475 to 926.²²

Broader and more sweeping measures were issued on November 21, 1988. A "package of deregulation measures" (paket deregulasi) was announced by Radius Prawiro, then Coordinating Minister for Economy, Finance, and Industry. These measures, among others, removed the import control and monopoly on a range of imported items. No longer was an "approved importer" list required, and any licensed trading house or manufacturer was permitted to import its necessary basic materials on its own.²³

Particularly, imports of materials for the plastics industry and most types of iron and steel would no longer be controlled, despite the president's family and associates involvement in these lucrative ventures.

It looked like the government was well aware that oil had become an extremely unreliable source of growth. This attitude was reflected in Radius Prawiro's speech to an economic

²² Richard Robison, "Industrialization and the Economic and Politic Development of Capital: The Case of Indonesia," Southeast Asian Capitalists, ed. Ruth T. McVey (Ithaca, NY: Southeast Asia Program Publications, Cornell University Press, 1992), p. 74, 75.

²³ John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 262, 263.

conference gathering in 1990:

Without foreign exchange from oil, it would become necessary to expand dramatically the range of non-oil export products which would be competitive internationally. To do this would require an efficient, low cost and productive economy - this meant creating the conditions for a competitive market.²⁴

Michael Vatikiotis and many other analysts commended the technocrats pragmatic, flexible policies, and well directed programs of fiscal austerity.²⁵ Bitter as it was, the government succeeded in administering two currency devaluations, and in the process, thwarting further IMF's intervention. To soften the blow, Indonesia was profoundly facilitated by a large amount of foreign aid, which in 1989 reached a record amount in excess of \$ 4 billion. The development budget, which in the past

²⁴ Radius Prawiro, Speech to APCAC, Jakarta, April 19, 1990.

Quoted in:

Michael R. J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1993), p. 38.

²⁵ Less well known is the role of the so called "Harvard Group." The technocrats had employed a team of foreign economists, mostly from Harvard or UCal at Berkeley, to formulate policies behind the scenes. They had to maintain a low profile to prevent provoking nationalist sentiments. Together with a dedicated team at the trade and finance ministeries, they worked intensively to restructure the economy.

Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development and Pressure for Change (London: Routledge, 1993), p. 40.

consisted largely of oil money, now contained almost entirely of foreign aid. More importantly, this meant that development spending could be maintained throughout the oil recession, indeed it experienced a 6% increase. While in other parts of the world such adverse economic conditions put a brake on economic growth, in Indonesia this adjustment period saw that income per-capita increased by some 15%.²⁶

By the late eighties and early nineties, deregulation of the economy began to show its intended effects. Private investment increased, most of it in manufacturing, and correspondingly, non-oil exports increased as well. Its share went up from 31% to 50% of total exports during the period 1978-87. No longer was Indonesia largely dependent on hydrocarbon exports, but garments and shoes with "Made in Indonesia" labels began to flood several western markets. The financial services sector was also surging. The banking market which was previously dominated by state banks was liberalized, and private national and foreign banks were given considerably more space to operate. By the end of 1990, over forty new banks had been granted licences, and deposit savings doubled from a little under \$ 10 billion in 1987 to over \$ 30 billion by the end of 1989.²⁷ In sum, for the first time since independence, the private sector became the main engine of economic growth in Indonesia, and this was the result, in no

²⁶ Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development and Pressure for Change (London: Routledge, 1993), p. 38,39.

²⁷ Ibid., p. 41.

small measure, to the skillful management of the economy by the technocrats.

The Economic Elite Power Base

With a continuing flow of policy reforms progressively dismantling important components of the privilege and patronage structure,²⁸ and the ambitious policies of industrialization in retreat, the position of the major client corporate groups was somewhat less secure. By now, it seemed that only investors with real capital to invest and real capacity to produce goods which would be competitive in the export markets, will become the true saviors for Indonesia's economic survival. Coincidentally, pressures emerged for a move to replace the control over policy and resources by a coalition of state bureaucrats and their corporate clients, toward a more structural relationship between state and capital. This would be a relationship in which the power of capital lies in its own dominance of investment and production.

The most vocal calls for change and reform were coming from domestic capitalists who traditionally were entirely outside the charmed circles of patronage, specifically the downstream

²⁸ The series of reforms were quite far reaching and all encompassing, bank and tax reforms in 1983, rupiah devaluation in 1986, trade reforms in 1986 and 1987, 1988, and easing of foreign and domestic investment controls in 1986 and 1987.

John Bresnan, Managing Indonesia: The Modern Political Economy (New York: Columbia University Press, 1993), p. 262.

manufacturers.²⁹ They have resented the import monopolists and protected upstream producers on whom they were forced to rely for overpriced and often poor quality inputs, and they welcomed the dismantling of import monopolies. Most businessmen in this latter category also found their relationship with state officials exploitative and onerous, the power clearly resting with the official. Taking advantage of the momentum for reform and the retreat of government on several important fronts, spokespersons for the business associations of these industries pressed home a widespread attack on corrupt officials, and called for more state regularization in a press eager to carry their stories.³⁰

Furthermore, several industries in these downstream business sector started the struggle to have their interests heard by the bureaucracy. Instead of using patronage mechanisms, they began utilizing their newfound political powers. Andrew MacIntyre's study of the political activities of industry associations

²⁹ Richard Robison, "Authoritarian States, Capital Owning Classes, and the Politics of Newly Industrializing Countries: The Case of Indonesia," World Politics, 41, no. 1 (October, 1988), p. 66, 69, 70, 73.

³⁰ Throughout 1986 the mainstream press, Kompas, Tempo, and Bisnis Indonesia, regularly carried this theme in their respective publications.

Richard Robison, "Industrialization and the Economic and Political Development of Capital: The Case of Indonesia," Southeast Asian Capitalists, ed. Ruth T. McVey (Ithaca, NY: Cornell University Press, 1992), p. 82.

provides an excellent illustration of this process.³¹ Through three case studies, he showed that businesses in Indonesia, albeit with different degrees of success, can and do organize themselves in a collective fashion and pursue group interests in an independent manner. Through exploitation of divisions within the bureaucracy over questions of economic policy and utilization of the press to articulate their causes, the textile and pharmaceutical industries succeeded in achieving their major goals - the removal of import levies on cotton imports, and the cancellation of a government plan to regulate drugs and other pharmaceutical products pricing respectively.³²

More recently, an interesting struggle between a company owned by the president's youngest son, Tommy, and major Chinese cigarette manufacturers also illustrated important contradictions between mercantilist rent-seeking activities involving politico-bureaucrats power and the interests of important sectors of corporate capital. The source of the conflict was the monopoly over cloves marketing granted to Tommy which had the initial

³¹ Andrew MacIntyre, Politics, Policy and Participation: Business - Government Relations in Indonesia (Ph D. dissertation, Australian National University, 1988).

³² The third case involved the insurance industry, and addressed the issue of pushing for an insurance law by the industry. The outcome was not a successful one.

Andrew MacIntyre, Business and Politics in Indonesia (Kensington, AU: Allen & Unwin, 1990), p. 244, 245.

effect of forcing prices to almost double their previous levels.³³ Tensions rose as the cigarette companies refused to buy cloves and the government increased its pressure upon them as the stockpile rapidly expanded. The resistance of the cigarette companies was orchestrated through the producers' association, The Association of Indonesian Cigarette Companies (Gabungan Pengusaha Pabrik Rokok Indonesia - Gappri). Their struggle was marked by an impressive degree of cohesion and doggedness in the face of extremely powerful adversaries. While the companies were, in the end, forced to relent and purchase the cloves, the monopoly company itself was forced to withdraw from the industry, handing over control to cooperatives.³⁴

Nonetheless, as enlightening as these developments in the latter eighties were, it was unlikely that the economic reforms and the consequent business activism could have led to a bourgeoisie-led political activism with demands for broader national political reforms. Even if the reforms reflected a dramatic departure from past economic policies and had far

³³ In Indonesia a considerable portion of the cigarette market is dominated by "kretek" cigarettes - they contain a mixture of tobacco and clove in it.

³⁴ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), pp. 153-157.

Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1993), p. 45, 153.

Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution, eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 92.

reaching consequences for the Indonesian economic system, the bureaucratic-authoritarian system and the patron-client network nurtured for over two decades by the New Order regime were strongly rooted within the Indonesian upper elite. On balance, the reform forces were much less powerful and poorly equipped to demand wholesale reforms of the country's economic and political system. In the remainder of this section, an in-depth analysis of this argument will be expounded.

First and foremost, the fact remains that the initial stimulant for real action had originated from the very top. It was necessary that Suharto himself and others at the top of the government had to agree with the reforms, and no pressure whatsoever had ever been exerted on government "from below" to act as it did.³⁵

³⁵ The vested interests, represented in the bureaucracy and large conglomerates with close links to the president, were certainly not happy with the kind and pace of reforms pursued, particularly when a reform policy challenged their monopolistic ways. Therefore, Suharto and his cronies agreed and acted on policy reforms only after their own interests were adequately protected from possible repercussions brought about by the new policies. Or alternatively, within the existing patrimonial system, they sought new operating frameworks in order to benefit from the reform policies.

Consequently, the technocrats had to move slowly and stealthily, sometimes barely touching core interests. When lucrative areas were affected, crony businesses were sent rushing upstream to build the only domestic capacity for raw materials now freed from import monopolies. These investments usually had the sole right and protection to market their products in the domestic market.

Michael R. J. Vatikiotis, Indonesian Politics Under Suharto: Order, Development and Pressure for Change (London: Routledge, 1993), p. 43.

Secondly, the resilience of economic nationalist ideas, as well as the economic and political strength of upstream producers, have proven to be considerable. Capital Investment Board Chief Ginanjar, and Minister for Technology and Research Habibi have constantly presented a strong defence for the industrialization policy.³⁶ Solely depending on free trade, so the argument went, will lead to dependence and stagnation. Self-sustaining and self-generating growth require "complete industrial circuits" able to generate backward and forward linkages and these can only be attained by financing and protecting large industrial projects.³⁷

Thirdly, the capacity of medium and smaller capitalists to secure their interests was also limited. On one hand, their support for reforming the structures of patronage, monopoly, and corruption coincided with the position of international financial

³⁶ Habibi has created, almost single handedly, a bureaucratic empire overseeing the state's research and development programs as well as cultivating strategic industries. Through the Bureau for Assessment and Application of Technology (Badan Penilaian dan Penerapan Teknologi - BPPT) and a powerful state strategic industrial sector (aircraft, shipbuilding, telecommunications, weapons etc.) billions of dollars have been invested.

Takashi Shiraishi, "Rewiring the Indonesian State," Making Indonesia: Essays on Modern Indonesia: Essays in Honor of George McT Kahin eds. Daniel S. Lev and Ruth T. McVey (Ithaca: Cornell University, Southeast Asia Program, 1996), p. 164-165.

³⁷ Habibi's high-tech investment projects in aircraft, shipbuilding, and armaments have remained untouched throughout the deregulation period.

Richard Robison, "Authoritarian States, Capital-Owning Classes, and the Politics of Newly Industrializing Countries," World Politics, 41, no. 1 (October, 1988), p. 71.

and corporate forces, as well as the technocrat camp. On the other hand, they confronted a huge tide when it comes to opening the Indonesian economy due to several factors. The strength of the major alliances between bureaucrats and major corporate groups have not been weakened considerably by the reforms.³⁸ Indeed, after the reforms were announced, domestic conglomerates through utilization of their own investment banks and their relatively easier access to capital, extended their operations into large industrial projects, banking and services, as well as internationalizing their operations.³⁹ Due to the increased importance of manufactured exports, they led the private sector investments in textiles, plywood, electronics, and processed foodstuffs. They also began to take over areas previously

³⁸ Even at this stage, the benefits imparted on clients were incredible. After receiving easy terms petrodollar loans from the government to build a large cement group (Indocement), during the fiscal crisis in 1985, Liem Sioe Liong requested relief from interest payments. Incredulously, the government responded by buying a 35% stake in Indocement and made cheap state credit available, enabling Liem to replace expensive dollar debts with cheap rupiah ones.

"Pembelian Saham P.T. Indocement Bukan untuk Membantu Dana" [The Purchase of Shares in P.T. Indocement is not to Assist it Financially], Kompas (August 14, 1985).

"Bubarkan Perusahaan Negara yang Tidak Miliki Potensi" [Dissolve State Enterprises Without Potential], Sinar Harapan (August 22, 1985).

Yoshihara Kunio, The Rise of Ersatz Capitalism in Southeast Asia (Singapore: Oxford University Press, 1988), p. 48.

³⁹ Yuri Sato, "The Development of Business Groups in Indonesia: 1967-1989," Approaching Suharto's Indonesia from the Margins, ed. Takashi Shiraishi (Ithaca, NY: Cornell University, Southeast Asia Program, 1995), pp. 147-49.

monopolized by the state: public utilities, air transport, and road construction. Under such circumstances it is erroneous to expect that a surge in the economic power of private capital result in a bourgeoisie hegemony over the political sphere and a triumph for liberalism ideology. Instead, it turned out that the newfound strength of the bourgeoisie was, borrowing Richard Robison's words, "to sustain a reorganized dirigisme and to continue to underpin the integralist corporatism of the state."⁴⁰ Structurally, the small and medium-scale private domestic capital entities were relatively much weaker compared to the large business groups and monopolists. Thus, far from forming the leading edge of a capitalist class that broke out of the ISI constraints in order to assault world markets, they were "inward-looking, dependent upon protection, nationalist in their policy perspectives, and therefore resistant to the movement of capital accumulation to a higher stage."⁴¹

Fourthly, important divisions between, as well as unique characteristics within, the indigenous and the more numerous and economically powerful Chinese Indonesian capitalists represent another impediment. This state of affairs has caused these bourgeois factions to remain politically vulnerable and

⁴⁰ Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution, eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 89.

⁴¹ Richard Robison, "Industrialization and the Economic and Political Development of Capital: The Case of Indonesia," Southeast Asian Capitalists, ed. Ruth T. McVey (Ithaca, NY: Cornell University Press, Southeast Asia Program, 1992), p. 82.

ultimately beholden to the government for protection. For example, a widely held traditional perception among medium and small indigenous businesses is that they are the primary victims of Chinese capitalist domination in Indonesia. While it is true that many industries (textiles, foodstuffs, and beverages) and trading networks once dominated by them were usurped by larger corporate groups and translated into the world of big business during the New Order reign, the petty bourgeoisie have not only persisted so far, but it has flourished too in the context of the country's economic growth.⁴² Therefore, their political impact has been relatively constant, and sometimes influential.

They were capable to form and manipulate public opinion through exploiting sensitive issues like nationalism, race, and religion. They made their demands appealing by attaching them to Islamic sensitivities and the closely associated anti-Chinese sentiment. But instead of organizing resistance toward big government that meddles into business affairs, their political activities have taken the form of a constant appeal for

⁴² H.W. Dick, "Further Reflections on the Middle Class," The Politics of Middle Class Indonesia, eds. Richard Tanter and Kenneth Young (Clayton, AU: Centre of Southeast Asian Studies, Monash University, 1990), p 69.

Kenneth Young, "Middle Bureaucrats, Middle Peasants, Middle Class? The Extra-Urban Dimension," The Politics of Middle Class Indonesia, eds. Richard Tanter and Kenneth Young (Clayton, AU: Centre of Southeast Asian Studies, Monash University, 1990), p 149.

Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution, eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 90.

protection and favor from big government.⁴³ In the end, the petty bourgeoisie has remained strongly Islamic in appeal, virulently opposed to mass political movements, and interestingly, they increasingly rely on government resources and projects.⁴⁴

Undoubtedly, the Chinese capitalists in Indonesia had accumulated tremendous wealth during the New Order reign, but like their Muslim counterparts, they did not rise to the occasion to challenge the authoritarian state albeit for completely different reasons. Both, Chinese capitalists and the larger Chinese community, have throughout the New Order period never enjoyed a political base, and they were therefore incapable of mobilizing political support to reform the system in the interests of private capital. Instead, they were constantly

⁴³ Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution, eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 90.

⁴⁴ Golkar and various corporatist front organizations are now the channels for patronage. Gradually, the Moslem petty bourgeoisie are being incorporated into the apparatus of the state and consequently the linkages between middle bureaucrats, local entrepreneurs, and landowners are becoming more complex and extensive, dragging them deeper into the state project.

Kenneth Young, "Middle Bureaucrats, Middle Peasants, Middle Class? The Extra-Urban Dimension," The Politics of Middle Class Indonesia, eds. Richard Tanter and Kenneth Young (Clayton, AU: Centre of Southeast Asian Studies, Monash University, 1990), p. 151.

Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution, eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 91.

victims of racial discrimination and public harassment by authorities as well as the larger populace. Hence, they were at the mercy of the indigenous bureaucracy and were aptly named "pariah entrepreneurs" among academics.⁴⁵ It is therefore hardly surprising that most of the leading Sino-Indonesian businessmen put a premium on security, accepting the need to make pay-offs for political protection on a patron-client basis, and play no part in efforts to expand civil rights.⁴⁶ We cannot therefore, interpret their economic clout solely in class or structural terms.⁴⁷

In sum, the deregulation measures initiated by the government

⁴⁵ Harold Crouch, "The Missing Bourgeoisie: Approaches to Indonesia's New Order," Nineteenth and Twentieth Century Indonesia: Essays in Honour of Professor J. D. Legge, eds. David P. Chandler and M.C. Ricklefs (Clayton: Aristoc Press, Centre of Southeast Studies - Monash University, 1986), p. 46.

F.W. Riggs, Thailand: The Modernization of a Bureaucratic Polity (Honolulu, HA: University of Hawaii Press, 1966), p. 252.

⁴⁶ Jamie Mackie, "Changing Patterns of Chinese Big Business in Southeast Asia," Southeast Asian Capitalists, ed. Ruth T. McVey (Ithaca: Cornell University Press, Southeast Asia Program, 1992), p. 177.

⁴⁷ As the larger indigenous capitalists and the "first family" is demanding an ever larger portion of state resources and more preferential treatment, there is little doubt that the position of big Chinese conglomerates in relation to the state and the centers of political power is changing. Many of them have initiated moves that have the effect of insulating them from potential upheavals in the future once Suharto is gone from the scene. These include increasing their offshore investment, particularly in China.

Jamie Mackie, "Changing Patterns of Chinese Big Business in Southeast Asia," Southeast Asian Capitalists ed. Ruth T. McVey (Ithaca, NY: Cornell University, Southeast Asia Program Publication, 1992), p. 184.

after the oil boom disappeared have affected the tight patrimonial system only marginally, and although the role of the private sector has significantly increased in recent years, there are no indications that the Indonesian bourgeoisie is ready to demand more political reforms.

Ironically, the deregulation period of the latter eighties has disproportionately benefitted the first family again. Through their relationship to the Presidency and all the powers that it entails, each of Suharto's offspring started her or his pull to secure a variety of investment licenses and infrastructure franchises.⁴⁸ The most current Forbes magazine survey discovered that Suharto has managed to attain the number six position as the "world's richest people," with a net worth estimated at 16 billion dollars. He was only behind the more well-known billionaires such as the Sultan of Brunei, Bill Gates, the Waltons, Warren Buffet, and King Fahd.⁴⁹

⁴⁸ Pete Engardio and Michael Shari, "The Suharto Empire: Can the Family's Big-business Deals Survive After the President is Gone," Business Week, (August 19, 1996), p. 47.

⁴⁹ Interestingly, several of Suharto's cronies also made the list, Liem Sioe Liong (76) - 4 billion, Bob Hasan (108) - 3 billion. Less directly "political" Indonesian billionaires on the list were: the Wonowijoyo family (29) - 7.3 billion, Eka Tjipta Widjaya (50) - 5.4 billion, Putra Sampurna (150) - 2.3 billion, the Riady family (189) - 1.8 billion.

Kerry Dolan, "International Billionaires: The World's Richest People," Forbes, (July 28, 1997).

Middle Class Politics

The New Order period has brought the emergence of a substantial middle class. A class whose absence was critical during the two decades following Indonesian independence in 1950, and whose existence is going to greatly influence the future. The importance of this vaguely defined and vaguely understood stratum in society has become more evident over the past decade.⁵⁰ Suddenly, "middle class" has become a fairly common category in the Indonesian political discourse. As Daniel Lev has pointed out:

Whatever this class is or is becoming, it is already being held responsible for great promises of social, economic, and political change, for its utter failure to achieve any such change, for vices and virtues as lurid and glorious as one can imagine.⁵¹

Certainly, the middle class benefitted from the Indonesian high economic growth. The advantages of the economic growth have flowed disproportionately to the relatively small urban middle class elite. Per capita expenditure levels have risen twice as

⁵⁰ Class analysis studies are scarce, almost absent, from the large collection of writings about Indonesia.

⁵¹ Daniel S. Lev, "Notes on the Middle Class and Change in Indonesia," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990), p. 44-45.

fast in urban areas as in rural areas, and even faster in Jakarta, the main locale of the Indonesian's middle class, than in any other city.⁵² Despite this, a large part of the rural population has also been the beneficiaries, particularly the network of village elites. The impact of this new-found prosperity was described vividly by Hans Dieter Evers in the following paragraph:

Bicycles have been replaced by motor bikes, television sets and parabola antennas are found in the remotest villages and newly-constructed houses are embellished with Greek columns and double or triple roofs and are equipped with modern, factory made furniture. Families enjoy a night out at Pizza Hut or Kentucky Fried Chicken, shop in a department store instead at the neighborhood "toko" (mom and pop store) and enjoy American films at one of the many new cinemas. In short, middle class consumption patterns are visible everywhere and catch the eye more than the occasional Mercedes 300 or the villas of the nouveau riche hidden among the hills surrounding the big cities of Java.⁵³

⁵² Between 1960 and 1976 real expenditure per capita increased by 40% in urban Java, and by 20% in rural Java. Jakarta grew by 50%, faster than any other city.

Howard Dick, "The Rise of the Middle Class and the Changing Concept of Equity in Indonesia: An Interpretation." Indonesia, 39 (April, 1985), p. 88.

⁵³ Hans Dieter Evers, "Transformation of the Informal Sector: Social and Political Consequences," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge

In light of the complexities associated with defining accurately Indonesian societal classes, Jamie Mackie and Harold Crouch used a relatively broad and less precise definition for the urban middle class, a definition that they characterized as being related to an "everyday sense" meaning.⁵⁴ They delineated the middle class roughly in terms of jobs and lifestyle (ownership of cars, motor cycles, television sets etc.). Although this class has grown considerably during the past three decades, it is still very small compared to other countries. In 1980 only 3.2% of the work force was employed in the professional and administrative occupations, while another 3.2% held clerical jobs and 12.9% were placed in the sales category. In 1990, the professional and administrative occupations rose to 3.9%, clerical jobs to 4.9% and sales to 14.3%.⁵⁵ Throughout this

(Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 266-67.

⁵⁴ Jamie Mackie wrote the following:

...I believe it is worthwhile to try to delineate the size and characteristics of the Indonesian middle class in a general sense, so that we can all be a little clearer just what sort of an entity we are talking about.

J.A.C. Mackie, "Money and the Middle Class," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990), p. 98.

Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 77.

⁵⁵ Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 77.

period, however, these clerical and sales categories which are generally considered lower-level office workers, continued to receive low wages, lived under "kampung" (urban ghetto) conditions, and could not afford consumer goods available to those employed at higher levels. Therefore, many of those employed in clerical occupations have not yet attained a middle class life style. A significant segment of those in the sales category cannot be classified as middle class either, since they were engaged in the informal sector and did not exhibit a true middle-class life style.

Another measurement that is useful to acquire a sense of the size of the middle class is ownership of cars, or motorcycles. The proportion of car ownership to households was 2.1% in 1980, and 8.9% owned a motorcycle. In 1990, these figures has risen to 4.1% and 21.1% respectively.⁵⁶

Based on these statistics, Harold Crouch estimated that the Indonesian urban middle class amounted to about 5% of the total

Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 117-118.

⁵⁶ Many of the households with motorcycle ownership may be more properly classified as part of a prosperous peasantry rather than the urban middle class.

Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 77.

Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 117-118.

population, while Jamie Mackie thought that figure was "a little too restrictive" and estimated that it stood at somewhat below 9%.⁵⁷

As such, despite the steady growth of the white collar and educated middle class, it is still very small compared to the middle class in countries such as Singapore and Malaysia. In Singapore, more than 40% of the work force is employed in middle class occupations and appeared to have attained a middle-class lifestyle. Malaysian middle class amounts to about a quarter of the population.⁵⁸

Moreover, part of those in the middle-class category were civil servants and worked for the government and its agencies. Hans Dieter Evers for example, found that in Jogjakarta and Padang, two main provincial cities, government employees constituted 58.4% and 61.3% of the middle class occupations respectively.⁵⁹ Also, those employed by the private sector are

⁵⁷ Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 77.

J.A.C. Mackie, "Money and the Middle Class," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990), p. 102.

⁵⁸ Harold Crouch, Domestic Political Structures and Regional Economic Cooperation (Singapore: Institute of Southeast Asian Studies, 1984), p. 93.

⁵⁹ Hans Dieter Evers, "Transformation of the Informal Sector: Social and Political Consequences," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 267.

often of Chinese ethnic origin due to the fact that the business sector has largely been dominated by a Chinese bourgeoisie. Together these two middle class groups are less inclined to be at the forefront in challenging the government. Although an "independent" urban middle class seems to be growing, it is still very small compared to the middle classes in the more developed neighbor countries of Indonesia. Hence, the middle class in Indonesia is still incapable of constituting a constraint upon the arbitrary and authoritarian nature of the government.

A survey by the daily Kompas carried out in March, 1986 was also revealing and supported the above argument.⁶⁰ It showed that the emerging young professionals of Jakarta had very little interest in domestic politics. Understanding this particular sub-group of the middle class can be important because of their potential to influence other sub-classes, and their capacity to bridge the lower and higher social groups during a period of adaptive changes. Their interests in the daily news were primarily sports (19.8%), crime (14.1%), while politics only came as a third priority (11.3%). When it came to their participation in elections, three-fourths had voted in the 1982 general elections, but as many as 61.8% admitted to having no favorite political grouping. The common response when asked to justify this attitude was: "Why bother in these times, just follow the stream."

However, this group was not totally apolitical either. For

⁶⁰ Kompas, May 11, 1986.

example, when asked about the Philippine elections of January 1986, all of them answered that it was either "very democratic" (50.0%) or "rather democratic" (50.0%). Also, each had a foreign political figure as an idol, and the names mentioned range from J.F. Kennedy and Mahatma Gandhi, to Ronald Reagan and Margaret Thatcher. Such opinions could perhaps be taken to reflect some degree of political knowledge.⁶¹ In sum, it seems unlikely that the young professionals are going to play a leading role in Indonesia's social as well as political life. The results indicated how disengaged these young professionals are from politics.

The overall outcome of this analysis is not surprising, given that the middle class was the creation of the state in the first place. Hence, it sees its opportunities in terms of improving its position within the channels of state institutions and within the confines of its ideology. Generally, the urban middle class' anxiety for career ambitions and cultivation of a materialist lifestyle have overridden their concerns for social justice, human rights and democracy. The new middle classes are prepared to fight only for narrow personal interests and not abstract

⁶¹ The sample contained a total of 70 respondents, 25% of them were top managers, 50% were middle level managers, 25% were professionals - doctors, lawyers, and consultants. Their age range was between 20 and 40 years. The survey used a questionnaire, followed by an intensive interview among a sub-sample of the original respondents.

Kompas, "Young Professionals of Jakarta: Millions in Salary, Lack of Hard Work," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990), pp. 167-174.

ideals.⁶²

On the other hand, neither is the Indonesian middle class entirely homogeneous and it consists of a wide range of sub-elements too. From wealthy managers and professionals to lower-level teachers and clerks often with a strong connection to the local ulamas. The middle class that emerges consists not only of yuppies and supporters of the authoritarian regime, but also secular liberal reformers.⁶³ Hence, it seems that if the day arrive when there are stronger pressures for demanding reforms, certain small factions of this urban middle class could still be counted on for a constructive and supporting role.

The Rural Middle Class

Considering that Indonesia is still a preponderantly rural nation, the formation of middle class groups outside the major urban centers is of great interest too. Clearly, state involvement in the economic life of rural communities in Indonesia has been extensive. The state has overshadowed most other avenues of investment and profit. Under such conditions, according to Kenneth Young, a specific class which he named "the

⁶² Assessments made by Ignas Kleden and Taufik Abdullah in Kompas, October 2, 1989, October 3, 1989, and October 9, 1989.

Quoted in:

Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and Middle Class Revolution eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 85.

⁶³ Ibid., p. 85.

intermediate strata"⁶⁴ has emerged instead of a petty bourgeoisie or an active rural middle class as traditionally had taken place during the formation of Western societies. While this class may have the appearance, style, and consumption patterns that are associated with a middle class, it has very little of its substance. Even the entrepreneurial forces in rural society had their skills diverted by the pursuit of easier and more certain rewards that became available from utilization of political alliances, particularly the numerous channels of state-regulated economic activities. Therefore, Kenneth Young gave the following distinct articulation of the rural middle class:

...the households, the families, the relatives and affines, the clients and associates of the political elite are frequently very nearly indistinguishable from the economic elite. The overlap is not perfect of course, but the area of intersection is much larger than the areas of separate status.⁶⁵

⁶⁴ Ken Young did fieldwork and studied the long term socio-economic and political change of rural Java.

Kenneth Young, "Middle Bureaucrats, Middle Peasants, Middle Class: The Extra Urban Dimension," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990), p. 148-149.

⁶⁵ Kenneth Young, "Middle Bureaucrats, Middle Peasants, Middle Class: The Extra Urban Dimension," The Politics of Middle Class Indonesia eds. Richard Tanter and Kenneth Young (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1990),

There are both structural and cultural explanations for this circumstance. First, the central state apparatus has practically dominated the whole village government. Home affairs, the police and military, agriculture, health, trade, forestry, food logistics and various other central government apparatus, all are intimately linked to village government and officials.

Secondly, corporate organizations, while giving the appearance of autonomy, were in reality important instruments of government policy. Golkar and numerous other state corporate organizations, all existed to serve the government in villages and are instruments of government policy. The village cooperative is another example. This farmer's economic unit possessed certain formalities that gave it an appearance of independence, but it was in the first place an important instrument of government policy, in this case to support the government's rice self-sufficiency program. These structures have significantly influenced everyday life in the village. Indeed, if one wanted to classify a rural middle class group based on independence from the state, one would scarcely have anyone left to wear that label.

Thirdly, an observation of how business is done, how money is made, the disadvantages that official antipathy can bring, and the considerable benefits which official patronage can create revealed clearly that the opportunity costs associated with autonomy from the state will be high. Hence, it is unlikely that

the "rural intermediate strata" can provide large-scale support should demands for political reform arise.

The Student Movement

Despite the authoritarian character of the New Order regime and the submissive attitude of the middle class majority, a tradition of dissent has continued to exist in Indonesia. This is prevalent among numerous but small and scattered organizations. Specifically, they consist of non-government organizations (NGOs), human right bodies, student groups, and critical journalists.⁶⁶ Essentially, the bulk of their public activity is directed toward demanding policy reform. They have generated endless streams of criticism on matters such as human rights, development policies, and labor issues. They have also focused on corruption as well as other impediments to the attainment of a rational and efficient state administration. To a degree, their criticisms were measured and gradualist in outlook. This is due to the marginal position of the dissenting groups, and the difficulty in openly organizing themselves and directing their energies into the national political arena.⁶⁷

⁶⁶ E. Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period," Indonesia, 59 (April, 1995), p. 28.

⁶⁷ Many of the regime critics argued that their activities should primarily contribute to the long-term processes of social and political change, and that is why for the time being they are prepared to avoid questions of regime change. They use benign terms like: policy advocacy, building counter hegemony, or strengthening civil society to describe their approach.

Among these groups, the students are the most militant. After a protracted period of marginal student activism,⁶⁸ at the end of 1988 a new wave of organized student protest was reemerging. From then until today, public demonstrations by student activists have been a commonplace, almost daily, occurrence in the main university towns across Java.⁶⁹

A striking difference between the student groups of previous

Generally, such an approach has enabled them to avoid repression and carve out a relatively secure, if marginal, position within the existing political system.

E. Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period." Indonesia, 59 (April, 1995), p. 29.

⁶⁸ In 1978, following Daud Jusuf's appointment as Minister of Education, a comprehensive and widespread crackdown on student movements was launched. Campus bureaucracy was given great latitude to intervene in student activities through the Normalization of Campus Life (Normalisasi Kehidupan Kampus - NKK) program. Since then student activism was marginalized from the mainstream of Indonesian political life.

During this hiatus, student activists led a semi-underground life, limiting their contacts to a small circle of critical intellectuals and NGOs. They re-evaluated their previous generations of activism, searched for new strategies, and studied a broad range of critical theories (e.g., dependency theory, the writings from the Frankfurt School, liberation theology, and classical Marxism).

E. Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period," Indonesia, 59 (April, 1995), p. 30.

⁶⁹ Arief Budiman, "From Lower to Middle Class: Political Activities Before and After 1988," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 233.

generations and the late eighties was in political outlook.⁷⁰ The current groups are dominated by a new and distinctly radical-populist stream. Students purposely lived in villages targeted for development projects and thereby influenced the affected communities directly. They trained themselves in peaceful resistance methods and organized political campaigns. Their writings, speeches, and pamphlets emphasized basic empowerment of the poor, and they clearly adopted a markedly more radical tone than their predecessors.⁷¹ Much of this new literature stressed their concern with the struggle for the rights of the common people - the "rakyat."

There is widespread dissatisfaction among a significant part of the college attending middle class youth. Student groups, although relatively inexperienced, are independent political actors who are engaged in very real debates. They are not merely the passive tools of elite factions, and unlike other groups in civil society, they have played a significant role in pushing

⁷⁰ Unlike the previous student movements of the sixties and seventies, the new groups involved many more students from smaller and less prestigious private campuses. The activists originated from a broad range of middle class and elite backgrounds, and interestingly but not surprisingly, many are the offsprings of middle and low ranking retired military officers.

⁷¹ Indeed, the discourse was slanted toward general distaste for "elite politics," and perception that the previous student movements had been taken advantage of (ditunggangi) by elite interests. Attitudes toward the military was also generally more hostile.

E. Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period," Indonesia, 59 (April, 1995), p. 32-33.

forward the liberalization process over the last eight years. They have re-institutionalized public protest as a normal feature of political life, and raised a number of issues onto the public agenda, particularly, land disputes, human rights violations, and labor issues.⁷² In the process, they have challenged and often overstepped the limits of toleration by the repressive apparatus of the state.

On the whole, however, the state is still much stronger relative to the middle classes, and the student movements, the most radical faction of the middle class, remain disunited and poorly organized.

Grass Roots Politics

Throughout its reign, the New Order succeeded in keeping grass roots politicking at bay through implementation of its official "floating mass" policy. The government imposed tough restrictions on political party activities and marginalized all forms of extra state organizations. Additionally, it developed a wide network of corporatist-functional organizations. In the last decade, primarily due to the growth of the working class, there are strong indications that this policy is becoming less effective and the accompanying corporatist structure is being challenged by populist movements. Overall, the state still

⁷² Richard Robison, "The Middle Class and the Bourgeoisie in Indonesia," The New Rich in Asia: Mobile Phones, McDonalds, and the Middle Class Revolution eds. Richard Robison and David S.G. Goodman (London: Routledge, 1996), p. 88.

imposes strong authority over the populace and shows no signs of crumbling.

The deregulation policies pursued in the eighties succeeded in diversifying the Indonesian economic base, from dependency on energy resources toward export goods manufacturing. The emphasis had shifted toward the development of a labor-intensive, low-wage, light manufacturing sector, and the political docility of the Indonesian working force was often presented as a major favorable advantage in encouraging investment in Indonesia. Consequently, the size of the working class has increased significantly over the years and the presence of an "industrial proletariat" is increasingly visible. The number of workers in the manufacturing sector has risen from 4.7 million in 1980 to 5.8 million in 1985, and 8.2 million in 1990.⁷³

Not surprisingly, the most frequent subordinate class political movements have originated from labor. Traditionally labor activism was restricted through the imposition of the "Pancasila Industrial Relations" (Hubungan Industri Pancasila - HIP) decree, and the right to organize was hindered by the imposition of a single government sponsored labor union, the Workman's Union Throughout Indonesia (Serikat Pekerja Seluruh

⁷³ A high proportion of employment is still absorbed by the cottage and small scale industries, and only a third in large and medium firms employing 20 or more workers.

Gavin W. Jones and Chris Manning, "Labor Force and Employment during the 1980s, The Oil Boom and After: Indonesian Economic Policy and Performance in the Suharto Era ed. Anne Booth (Singapore: Oxford University Press, 1992), p. 389, 390.

Indonesia - SPSI).⁷⁴ However, notwithstanding these restrictions, workers took their demands for better wages and working conditions to the streets and there were 19 strikes in 1989, 61 in 1990, and 110 in 1991.⁷⁵ In addition, there have been a number of highly publicized incidents of coercion of workers and their representatives. In 1993, Marsinah - a worker and labor activist in East Java - was murdered by soldiers. In North Sumatra, Protestant clerics and labor activists were tortured. In 1994, labor protesters were suppressed violently in Medan.⁷⁶

Another important characteristic of this new wave of strikes is the establishment and proliferation of independent, alternative labor-based organizations at the grass roots level.

⁷⁴ The HIP condemns all strike activity on the grounds that it transgressed the principle of harmonious, family like state-capital-labor relations.

Robert Cribb and Colin Brown, Modern Indonesia: A History Since 1945 (London: Longman, 1995), p. 137.

⁷⁵ Tom ETTY, "Some Problems in the Field Labor," Paper presented to the 8th INGI Conference in Odawara, Japan (March 21-23, 1992).

Quoted in:

Arief Budiman, "Political Activities Before and After 1988," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 232.

⁷⁶ Human Rights Watch - Asia, "Indonesia: More Restrictions on Workers," 5, no. 15 (September, 1993).

Human Rights Watch - Asia, "Indonesia: The Medan Demonstrations and Beyond," 6, no. 4 (May, 1994).

R. William Liddle, "Indonesia: Suharto's Tightening Grip," Journal of Democracy, 7, no. 4 (October 1996), p. 69.

This reached its peak in 1990, and in what seemed like a consolidation of all their activities, the workers formed the "Prosperous Workers Union of Indonesia" (Serikat Buruh Sejahtera Indonesia - SBSI), thereby challenging the government corporatist policy of allowing only one government-approved union to exist.⁷⁷ Most observers were struck by the distinctive rise in working class militancy and activism in Indonesia, and the presence of various labor based grass roots organizations increasingly represented a serious problem for the formal arrangements of state-capital-labor relations, a structure that have been institutionalized for over more than twenty years.

By now, a generation of workers has been raised or even born in urban or semi-urban areas, especially in Java, and they have come of age. For them, life in the city and the factories is not temporary anymore, as had been the case for their predecessors. For these urban laborers, the factory as well as the city, are the only source of livelihood and living experience. The village can no longer offer them the refuge or place of retreat that it had been in the past. This does not mean that ties with the

⁷⁷ Note that the government sponsored union uses the word "Pekerja" (workman) while the spontaneously labor formed organization designates itself as "Buruh" (workers). In the Indonesian language semantics there is a significant difference between them and the latter denotes a more politically active meaning.

Vedi R. Hadiz, "Challenging State Corporatism on the Labor Front: Working Class Politics in the 1990s," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 195-196.

village have been totally severed: they have not and it would take longer, perhaps another generation and a more enduring period of industrialization, for this to happen. Nonetheless, it is quite clear that the new generation of workers has become much more urbanized.⁷⁸

The implication is that workers now feel that they have a much more permanent stake in the struggles to improve their work and living conditions both in the factories and the cities. This altered world view combined with a higher level of education that the current labor force possesses⁷⁹ make for better organizing and greater sophistication in workers' campaigns. The literature that is streaming out from these quarters is testimony to this phenomenon. Thoughtful and sophisticated writings on the general conditions of work and factory life, on state-capital-labor relations, and on ways of overcoming their political subordination have constantly been produced by individual workers in recent years.⁸⁰

⁷⁸ Vedi R. Hadiz, "Challenging State Corporatism on the Labor Front: Working Class Politics in the 1990s," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 197.

⁷⁹ Gavin W. Jones and Chris Manning, "Labor Force and Employment during the 1980s," The Oil Boom and After: Indonesian Economic Policy and Performance in the Suharto Era ed. Anne Booth (Singapore: Oxford University Press, 1992), p. 364-66.

⁸⁰ Vedi R. Hadiz, "Challenging State Corporatism on the Labor Front: Working Class Politics in the 1990s," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 197.

Vedi Hadiz thinks that there are many other venues for workers activism, such as the establishment of various small informal group settings, from discussion groups to credit unions. These activities are currently still embryonic in form but pioneering in character. These groups have become the means through which workers exchange work experiences, ideas, and gain a better understanding of the social milieu that they are in. Such groups are commonly run in partnership with other activists from labor oriented NGOs, or student organizations. These interactions combined with the dire conditions found in factory and city life are, in the long run, going to facilitate the slow process of developing a worker identity.⁸¹

So far the government response to increased worker activism has been a typical hard line approach. Sudomo, the former security chief, was appointed by Suharto as Minister of Manpower between 1983 and 1988. That a former security chief became responsible for managing labor affairs is perhaps also a reflection of the extent to which military involvement in the settlement of labor disputes has become more ubiquitous under the New Order's system of labor control.⁸² This is evidenced also

⁸¹ Ibid., p. 197.

⁸² During Sudomo's tenure as Minister of Manpower military involvement in quelling strikes was legitimized (1986).

Vedi R. Hadiz, "Challenging State Corporatism on the Labor Front: Working Class Politics in the 1990s," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 195.

by the increasing number of military officers serving state institutions that deal with labor, and by the elevated role of local sub-district military commands (Komando Rayon Militer - Koramil). This latter entity has become the site for the adjudication of many labor disputes.⁸³

Undoubtedly, capital development has unleashed forces that are demanding change. Although the working class is still quite small and weak, further industrialization will ensure its growth and maturation. It still remains to be seen if workers are able to develop the level of political organization necessary to exert sufficient pressure for reforming the arrangements of state-capital-labor relations in a manner that is more accommodating to labor interests. So far, reforms have been piecemeal and very slow.

⁸³ In mid-1993, the new United States administration put strong pressure on the Indonesian government to liberalize its labor policies, threatening economic measures which would hit the Indonesian economy severely. Human rights issues have also been raised by the new Democratic administration resulting in the termination of some military assistance to Indonesia from the US.

As a result of these diplomatic efforts, eventually, the minimum wage in Indonesia was increased and the military involvement in labor disputes was formally prohibited in January 1994. In practice however, the military continues to quell workers demonstrations. Moreover, with the increasing role that Indonesia played in the formation of the Asia Pacific Economic Cooperation (APEC) organization and the significant increase in US commercial interests in Indonesia afterward, US advocacy for labor causes have slackened considerably.

The Megawati Phenomenon

During the 1987 elections, to everyone's surprise, the Indonesian Democratic Party (Partai Demokrasi Indonesia - PDI)⁸⁴ took 11% of the votes. Although it was only less than a three points increase from the previous 1982 elections, it still represented a 38% improvement and resulted in a gain of 16 additional seats in parliament. A more astonishing feat took place in the elections of 1992. This time PDI brought in 15% of the votes and another 16 seats in parliament went to the party. Golkar, correspondingly, fell from a New Order high of 72% of the vote in 1987 to 67% in 1992.⁸⁵ These occurrences was enough to worry Suharto and other government officials.

The most apparent factor that contributed to PDI gain was the use of Sukarno's image by the party. In 1987, Megawati Sukarnoputri⁸⁶ accepted the PDI leadership invitation to run for parliament on the PDI ticket. The entrance of the former President's daughter, who bears a striking resemblance to her

⁸⁴ In a response to a government restructuring of the party system in 1973, PDI was formed and it constituted a fusion of Sukarno's old National Party (Partai Nasional Indonesia - PNI), and several other smaller parties, most notably the Catholic Party (Partai Katolik) and the Protestant Party (Partai Kristen Indonesia). It competes within the limits of the New Order's corporatist system and was traditionally considered the most docile party relative to the other two, the government's Functional Group (Golongan Karya - Golkar) and the Muslim's United Development Party (Partai Persatuan Pembangunan - PPP).

⁸⁵ Karen Brooks, "The Rustle of Ghosts," Indonesia, 60 (October 1995), p. 75, 85.

⁸⁶ Megawati Sukarnoputri was then an unassuming thirty-nine year old housewife with no political experience.

handsome father, ignited a spark and gave the party a much-needed boost in the polls. Whenever she campaigned, Megawati was met by massive crowds chanting her name. As she spoke to the adoring crowds, raising and shaking her fist in her father's characteristic style, Mega gave expression to many of her father's ideas and advanced PDI's compassion towards the poor and commitment to social justice.⁸⁷

Megawati's potential for changing the Indonesian political system is indeed huge. She has the capacity to become the rallying point for that growing section of middle and lower strata of society who are increasingly disaffected with the current regime. To a large degree, her popularity is derived from the place her father, Sukarno (affectionately called Bung Karno by the people) - the Republic's first president - occupies in the hearts and minds of the Indonesian people. Throughout his political life, Sukarno was a classic populist, he extolled the virtues of common people (wong cilik), he made poor Indonesians feel they occupied a center stage in Indonesia's historic struggle toward nationhood and grandeur. Added to this is the widely held perception that Sukarno devoted himself wholeheartedly to the cause of the nation, that he never used his position of power to enrich his family.⁸⁸ This stands in stark contrast to the current conditions where poverty and inequality

⁸⁷ Karen Brooks, "The Rustle of the Ghosts: Bung Karno in the New Order," Indonesia, 60 (October, 1995), p. 75-76.

⁸⁸ Ed Aspinall, "What Happened Before the Riots?" Inside Indonesia (October - December, 1996), p. 7-8.

persist, along with widespread corruption and nepotism extending to the very top of the government.

A more dramatic change took place in late 1993. For the first time in the 30 years of Suharto's New Order, a political party became chaired by a leader who had not been groomed by the government, and indeed, who was elected by party members in defiance of government instructions. Through an intricate process involving different military and bureaucracy factions brokering and meddling, Megawati Sukarnoputri was elected as Chairperson of the PDI.⁸⁹

Megawati's rise to the leadership confronted the government with a dilemma. It was anticipated that the party would dramatically increase its vote in the upcoming 1997 general election. If simultaneously Megawati were to announce her candidacy for President prior to 1997, and there were plenty of indications that she would, the national elections could become a de facto plebiscite on Suharto and his government. This did not mean that PDI under Megawati would be able to win the election. After all, the Indonesian political system is designed to control such challenges and not allow genuine contestation.⁹⁰ Nonetheless, a Megawati-led PDI represented an unprecedented challenge to the government which could sparked a major political crisis during the elections or parliament session. For

⁸⁹ Karen Brooks, "The Rustle of Ghosts: Bung Karno in the New Order, Indonesia, 60 (October, 1995), p. 86-89.

⁹⁰ Six hundred of the 1000 members of parliament are appointed by the President.

government, it was necessary to remove Megawati as PDI leader at all cost.

Through a government-engineered ploy, an extraordinary party congress was held in Medan in June 1996. Megawati Sukarnoputri, in her absence from the congress, was removed from the PDI leadership, and Suryadi, a former PDI leader, was appointed to replace her. Megawati and her supporters rejected her dismissal and in defiance they hold on to the PDI HQs in Jakarta. On July 27, 1996, an attack was launched by what many believed were soldiers disguised as pro-Suryadi PDI members. The Suryadi faction took over the PDI HQs by force.⁹¹ Words quickly spread around, and people in the streets of Jakarta were angered and simultaneously frustrated at such blatant behavior by government. A widespread riot exploded in Jakarta on that same day, but was crushed violently by the military and police in the ensuing days.

The government strategy to legitimize its actions soon became clear. A small pro-democracy party, People's Democratic Party (Partai Rakyat Demokrasi - PRD), led by student activist Budi Sujatmiko, was accused of fomenting the riots. Officials accused the PRD as being communist. A general crackdown on pro-democracy groups began in earnest, and on July 30, Muchtar Pakpahan, the leader of the independent labor union, SBSI, was detained and

⁹¹ Many sources claim that defenders of the HQs were stabbed to death and the building was awash with blood. Some reports say that up to 100 pro-Megawati supporters remain missing. The New York based Human Rights Watch - Asia has released a list of 19 missing persons.

charged under the draconian Subversion Law. Megawati Sukarnoputri herself was called in for police questioning.⁹²

Once again, the government managed to quell a popular uprising. This time, however, it only succeeded through utilizing its security apparatus of last resort, the infamous and vicious military troops and police units. The question becomes, for how long can this system of authoritarian government endure in Indonesia?⁹³

⁹² The government did not dare to arrest Megawati for fear of inciting more riots and resistance from the people.

⁹³ In the general election held last May, the (pro-Suryadi) PDI suffered a heavy loss in the polls. Its share declined from 15% in 1992 to less than 3%, by far its lowest ever.

Megawati Sukarnoputri and her leadership, maintaining their legalist approach, did not promote an active boycott campaign. In her final statement a week before the poll, Megawati said she would abstain from voting, and instructed her supporters to follow their own conscience. Although the message was clear enough, she stopped short of explicitly encouraging others to boycott, an illegal act under the draconian Indonesian election laws.

The Church Representative Conference (Konferensi Waligereja Indonesia - KWI), a Catholic body equivalent to the US Bishop Conference, also issued a statement urging Catholics to follow their own conscience.

Although an increasing number of the population boycotted the last election, nevertheless, with its tight control over every government apparatus and practices of widespread fraud, Golkar succeeded to collect 74% of the vote. The last election once again simply demonstrated government's ability to assert its will over the population.

Inside Indonesia, "What Price Victory? The 1997 Elections," [<http://www.pactok.net.au/docs/inside/edit51/asp.htm>], 51 (July - September, 1997).

Hidup, "The Shepherd Letter in a Forest of Moral Decay," [Surat Gembala di Belantara Kemerosotan Moral], 24 (June 15, 1997), p. 34-35.

The Intra-Elite Conflict

The previous sections have shown the futility of extra-state actors attempts at influencing or changing the existing state-society relationship. Moreover, although changing external circumstance in the mid-eighties forced government to deregulate the economy and appeal to a broader constituency in the private sector, by and large, Suharto succeeded in preserving the corporatist-authoritarian structure, so carefully nurtured during the 1974-82 oil boom period.

Alternatively, observers of Indonesian politics have for many years been trying to detect lines of cleavage between Suharto and the military, as well as within the military itself. After all, this latter institution is the most organized and powerful political force left in the country.⁹⁴ Clearly, during the first fifteen years of the New Order, there was almost no separation between the government and military, or at least the military was the most dominant part of the former. General Suharto and the army were in effect the government.

⁹⁴ Benedict R. Anderson, "The Last Days of Indonesia's Suharto?" Southeast Asia Chronicle, 63, 1978.

Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), 384 pages.

David Jenkins, Suharto and His Generals: Indonesian Military Politics 1975-1983 (Ithaca, NY: Cornell Modern Indonesia Project, 1997), 300 pages.

A. Gregory, "The Influences of Ethnicity in the Evolution of the Indonesian Military Elite," Ethnicity and the Military in Asia, eds. DeWitt C. Ellinwood and Cynthia Enloe (New Brunswick, CA: Transaction Books, 1981).

Gradually, however, the military came to play a declining role within the regime. Under the economic deregulation began in the mid eighties, "notables"⁹⁵ within the regime - a faction centered around the Suharto family - had increasingly been handed control over large parts of the economy. This process has speeded the displacement of the military from the commanding heights of the economy, with military-controlled foundations and state enterprises playing a decreasing role. Richard Robison, for example, noted that in the late eighties "the military lucrative forestry and transport monopoly had largely evaporated as better capitalised conglomerates and new family enterprises moved in."⁹⁶ Additionally, with the rise of the Military Academy graduates to key commands of the army and the power erosion of the 1945 generation of officers during the eighties, the identity gap between the government and military became more obvious.⁹⁷

One of the major and simultaneously exposed intra-elite

⁹⁵ The term "notables" was first introduced by Richard Robison.

Richard Robison, "Organizing the Transition: Indonesian Politics in 1993/1994," Indonesia Assessment 1994 (Canberra, AU: Australian National University, 1994), p. 52.

⁹⁶ Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s: Authoritarianism, Democracy, and Capitalism, eds. Richard Robison, Kevin Hewison, and Gary Rodan (Sydney, AU: Allen & Unwin, 1993), p. 50.

⁹⁷ Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s, eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 120.

contestations was the infighting between General Benny Murdani and the army on one side, and the President and General Sudharmono on the other. The Indonesian army has always been permeated by a number of informal networks, but the one built around Benny Murdani was a particularly powerful and pervasive one. During the seventies, Murdani attained a position of extraordinary power by his dominance over the military intelligence network. The height of his authority, however, was in the 1983-88 period when he concurrently held the positions of chief of the armed forces and minister of defence and security, while continuing his hold on the intelligence apparatus. Then, Benny Murdani intervened extensively in promotions and transfers within both the military and the bureaucracy.⁹⁸

On the other side of the fence was Sudharmono, a Suharto protégé. As state secretary and Golkar chairman, he had tirelessly attempted to consolidate the power of the bureaucracy and Golkar. This also meant securing independence from the military in the process, and if needed, even willingness to criticize this latter institution. Sudharmono had also undercut the military's financial power during his tenure as chairman of Team 10.⁹⁹

By the late 1980s, General Benny Murdani utilized his power

⁹⁸ Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1994), p. 80.

⁹⁹ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 273, 283.

against his chief rival, General Sudharmono. Also, through his direct "in the face" criticisms of nepotism within the First Family circles, he seemed increasingly to represent a threat to the President himself.¹⁰⁰ Thus, during the 1987 general elections, the military purposely refrained from giving all-out support to Golkar, which was a clear departure from its past tradition. Moreover, they constantly attempted to undermine Sudharmono's candidacy for the vice presidency. Leading up to the 1988 parliamentary session, military elements, evidently from the Murdani camp, launched a "gossip" campaign to smear Sudharmono's reputation. The military also openly supported John Naro, the chairperson of the Muslims' United Development Party. This intra-elite conflict reached its height in 1988 when General Benny Murdani was dismissed as chief of the armed forces by Suharto shortly before the parliamentary session to elect a President started. Subsequently, the parliament elected General Sudharmono, Murdani's nemesis, as vice president in the face of open military protests.

As a repercussion of these squabbles, the government has become quite distinct from the military throughout the late eighties and early nineties. Despite the fact that several members of the cabinet have military backgrounds, they owed their

¹⁰⁰ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 146, 285.

Michael R. J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1994), p. 87.

positions to President Suharto, and not to military support. Of course, the military remains a major force within the regime, but its leaders were not in a position to dictate the President.

This division between government and military leadership has been crucial for a short "openness" (keterbukaan) period in the early nineties. With restlessness growing in the military, the military leadership which traditionally pursued a tough and hard line policy of order and security (ketertiban dan keamanan) suddenly adopted a more lenient stance. Indonesia experienced a limited and uneven loosening of political controls. This diversion was not due to commitment to democratic ideals, but was rather intended to put pressure on Suharto.¹⁰¹

It was during this brief reprieve from absolute authoritarianism that the student movement and other activists were allowed to raise their voices and demonstrate. In fact, student demonstrations were often provoked by the military.¹⁰² From 1989 to 1992, Ed Aspinall discovered that intensive and regular contacts between student activists and military intelligence officers took place.¹⁰³ Retired army dissidents

¹⁰¹ Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s, eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 121.

¹⁰² Michael R. J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1994), p. 5, 162.

¹⁰³ One such encounter was described by Aspinall in the following paragraph:

...a prominent military officer, initially disguised as a

were also allowed to raise their public profiles, and the press was given a remarkably free hand to raise critical issues such as the business activities of the President's children.¹⁰⁴

In response, the President was forced to look beyond the ranks of military for support. Reversing his earlier hardline attitude toward political Islam, which was regarded as the main threat to the regime until the mid-eighties, Suharto is now wooing the Muslim community. Suharto began to give ground on issues dear to Muslims and tried in many ways to enhance his own Muslim credentials. The government relaxed restrictions on the use of the "jilbab" headscarf at public schools, introduced more Islamic elements into the national school curriculum, and gave more authority to Islamic courts. On the diplomatic front, Jakarta formally recognized the state of Palestine. Suharto and his family began increasingly to adopt a Muslim lifestyle, including a well-publicized haj pilgrimage to Mecca in 1991. In the same

journalist visited student activists in Central Java. This officer was considered by the activists I spoke to as "Benny's (General Benny Murdani) right hand man." He asked many questions about the movement and the students' aims and concluded by telling them to contact him: "If you need anything, if you wish to criticize Suharto, if you need funds, if you need posters or anything like that." He also offered to put them in contact with the ABRI (military) faction in the DPR (parliament). On leaving, he handed the students an envelope containing a large amount of money.

Ed Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period," Indonesia, 59 (April 1995), p. 35.

¹⁰⁴ Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s, eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 121.

year, the Suharto family invested in a Muslim bank, and a major Islamic festival was held.¹⁰⁵

The most significant political move by Suharto, and certainly the most controversial one, was his strong support for the founding of the Association of Indonesian Muslim Intellectuals (Ikatan Cendekiawan Muslim Indonesia - ICMI) in December 1990. To help formulate and broadcast Muslim views, the association was permitted to launch its own newspaper, "Republika," and create its own think-tank, the Centre for Information and Development Studies (CIDES).¹⁰⁶ This development has clearly outraged both military leaders¹⁰⁷ and Christian leaders. Leading to the 1993

¹⁰⁵ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 175.

Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1994), p. 132.

¹⁰⁶ Adam Schwarz, A Nation in Waiting: Indonesia in the 1990s (Boulder, CO: Westview Press, 1994), p. 175.

Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1994), p. 132-133.

Robert W. Hefner, "Islam, State, and Civil Society: ICMI and the Struggle for the Indonesian Middle Class," Indonesia, 56 (October, 1993), pp. 1-35.

¹⁰⁷ In more recent years, with the diminishing powers of General Benny Murdani, Suharto renewed his power consolidation over the military. The latest open military discontent has been with B.J. Habibie, the controversial research and technology minister. He has emerged as Suharto's right-hand man and the most prominent civilian in government. Military unhappiness has been prompted not only by transfer to his jurisdiction of previously military-owned enterprises, and his deciding role in armament and equipment purchases, but also by the part he played in the establishment of ICMI, and his apparent ambition for the presidency.

election, while Golkar still hesitated, the Muslim-oriented United Development Party (Partai Persatuan Pembangunan) became the first party to endorse Suharto for his sixth re-election as President. In the end, with apparent ease, Suharto was able to regain power and consolidate his hold on the military.

A couple of factors could account for this outcome. First, Suharto has personally accumulated tremendous political powers over the years. He has constantly cultivated powerful extra-constitutional instruments of rule and put them under his direct authority or that of his close associates. These range from several security and intelligence agencies (Kopkamtib, Aspri, Opsus, Bakin, BIA), and the Golkar Control Board (Dewan Pembina - DP), to the State Secretariat. Collectively these agencies have provided Suharto with control over important sectors of the state apparatus, including the military, as well as the population at large.¹⁰⁸

Ed Aspinall, "Students and the Military: Regime Friction and Civilian Dissent in the Late Suharto Period," Indonesia, 59 (April, 1995), p. 24.

Harold Crouch, "Indonesia: an Uncertain Outlook," Southeast Asian Affairs, 1994, p. 125.

¹⁰⁸ Harold Crouch, The Army and Politics in Indonesia (Ithaca, NY: Cornell University Press, 1978), pp. 221-72.

David Jenkins, Suharto and His Generals: Indonesian Military Politics 1975-1983 (Ithaca, NY: Cornell Modern Indonesia Project, 1997), p. 127.

Richard Robison, "Indonesia: Tensions in State and Regime," Southeast Asia in the 1990s: Authoritarianism, Democracy, and Capitalism eds. Kevin Hewison, Richard Robison, and Garry Rodan (Sydney, AU: Allen & Unwin, 1993), p. 48.

Secondly, Suharto has substantial resources of patronage at his disposal which he had used to attract considerable support from powerful figures in the bureaucracy, the military, and local communities. It is estimated that Suharto has formed at least 18 tax-free charitable foundations (yayasans) that operated under the cloak of philanthropy. Their purposes range from funding Golkar, to building mosques and funding veterans welfare programs.¹⁰⁹ Office holders in Suharto's yayasans include state officials, family members, and business associates. The yayasans are both investors in businesses and recipients of fees and contributions paid by corporations, many of them in monopoly positions.¹¹⁰ With these powerful tools and accompanying

¹⁰⁹ Bank Duta, Indonesia's second largest private bank, is 72% owned by three yayasans controlled by Suharto. When in 1990 it incurred massive foreign exchange losses due to unscrupulous speculation, a puzzling 500 billion rupiahs cash injection, substantially in excess of the acknowledged assets of its controlling yayasans, suddenly materialized. Sources believe Suharto called in favors from powerful business magnates who bailed out Bank Duta indirectly and preserved the financial health of the yayasans.

Michael Vatikiotis, "Charity Begins at Home," Far Eastern Economic Review (October 4, 1990), p. 62-64.

Michael Vatikiotis, "The Cash Conduits," Far Eastern Economic Review (October 4, 1990), p. 62-63.

¹¹⁰ Yoon Hwan Shin reported that there are three main channels that Suharto and his wife relied on to finance their political and social activities. First channel is the yayasans. Second channel is the co-called cukong system, an arrangement of sharing profits between political power and Chinese businessmen, as exemplified by Liem Sioe Liong. Third channel is through direct participation of the First Family members in private business activities.

Saeki Natsuko also reported that as recent as late last year, on December 4, 1996, Suharto issued a Presidential Decree

mechanisms at his disposal, Suharto was able to maintain his hold and control over the military.

The IMF Aid Package

Regardless of the World Bank and many economists' assertions about the sound fundamentals of the Indonesian economy, in recent months the value of the rupiah has been dragged down by nearly 40% against the dollar, and much of corporate Indonesia is on the brink of defaulting on their huge offshore debts.¹¹¹ Overnight, the apparently booming Indonesian economy evaporated and turned into a recessionary one. The Association of Indonesian Contractors (Asosiasi Kontraktor Indonesia- AKI) estimated that 2.7 million day laborers had lost their jobs in Jakarta alone

obliging all conglomerates in the country to donate 2% of their net profits to Suharto's foundation - the Self Reliant Welfare Fund Foundation (Yayasan Dana Sejahtera Mandiri - YDSM).

Yoon Hwan Shin, Demistifying the Capitalist State: Political Patronage, Bureaucratic Interests, and Capitalists in Formation in Suharto's Indonesia Yale University, Ph D. thesis, p. 247-8.

Saeki Natsuko, "The Suharto Family Business," AMPO, 20, no. 1 (1997), Pacific Asia Resource Center, Tokyo, Japan.

¹¹¹ The best estimate is that companies owe more than \$ 60 billion (much of it unreported in their balance sheets) in offshore debt, and in addition the government owed another \$ 100 billion.

Michael Shari and Joyce Barnathan, "How Bad can it Get for Suharto: The Escalating Crisis Threatens the Indonesian President's Hold on Power," Business Week (October 27, 1997).

during the past three months.¹¹² A CEO at one of Indonesia's largest companies predicted that 10% of the jobs in the corporate sector would be shed, meaning another loss of hundreds of thousands of white collar jobs.¹¹³ The current ambience brought about by the recession is aptly captured in the following paragraph:

Even within the air-conditioned halls of the luxury Plaza Senayan the mood is glum. Indonesia's nouveaux riches have been reduced to window shopping. The price of imported luxury goods has already increased 15 percent this month. Interest on home and car mortgages is now close to 30 percent. Everywhere, shops are almost empty, with banners proclaiming sales.¹¹⁴

¹¹² It is these little people (wong cilik) that really bear the brunt of the current crisis. These men live under Jakarta's many highway overpasses, merely waiting. With no income and no unemployment benefit, they have been reduced to begging for food or living on credit from the noodle and rice hawkers in the immediate surroundings.

Waska, a day laborer and father of four said: "I have been waiting for 15 days but there is no work yet, I can do any work. I just have to keep waiting; my wife and my children are depending on me."

Louise Williams, "Currency Crisis Fallout: Millions of Workers Lose Jobs as Rupiah Collapses," Sydney Morning Herald (November 1, 1997).

¹¹³ Louise Williams, "Currency Crisis Fallout: Millions of Workers Lose Jobs as Rupiah Collapses," Sydney Morning Herald (November 1, 1997).

¹¹⁴ Ibid.

In response to the crisis, the technocrats have once again been called back by Suharto to lead an economic rescue effort and negotiate with IMF an aid package that will return confidence to the rupiah and the Indonesian economy, and salvage corporate Indonesia from its exposure to debt.¹¹⁵ While these talks were going on, Suharto launched his own campaign and held a series of meetings with several high officials from neighboring countries. Being a politician of astuteness and craft, Suharto is known as a man who can achieve remarkable results in a "pertemuan empat mata" (four eyes meeting). Here is how The Sydney Morning Herald portrayed this series of meetings:

The Singapore Prime Minister, Goh Chok Tong, recently called in for a chat with the President and came away with his arm up his back and a \$US 10 billion hole in his national wallet. Malaysia's Deputy Prime Minister, Anwar Ibrahim, went in for a chat and came out minus \$US 1 billion. Yesterday, it was the turn of John Howard (Australia Prime Minister), who seems to have been a little more guarded - he said that while Canberra was willing to come to Indonesia's aid, it would do so within

¹¹⁵ Wijoyo Nitisastro, the second most senior Indonesian economist after Sumitro Joyohadikusumo and prime mover of the sixties economic rescue plan, was once again summoned from retirement. Together with Mar'ie Muhamad, minister of finance, and Sudrajad Jiwandono, governor of Bank Indonesia, they constitute the current Indonesian team.

the framework of the IMF package.¹¹⁶

Prime Minister Hashimoto of Japan also made a phone call and pledged another \$ 3 billion to help Indonesia out. Naturally, all these nice talks have boosted Suharto's confidence, even to the degree that he ventured out to claim that Indonesia was merely seeking IMF's expertise, and not necessarily monetary assistance during a youth meeting in Pasuruan, East Java. Undoubtedly, these conflicting signals from politicians topped by such an absurd statement, rather than calming investors, caused havoc in an already turbulent currency market, and send the rupiah on another unwanted roller-coaster trip.

Nonetheless, negotiation with IMF has produced a huge aid package amounting to almost \$ 40 billion, the second largest in IMF history.¹¹⁷ In return for receiving financial aid,

¹¹⁶ "IMF and the President: Call for a Chat in Jakarta, and it could Cost Billions," Sydney Morning Herald (October 30, 1997).

¹¹⁷ In 1995 \$ 50 billion was made available to Mexico as that country teetered at the brink of collapse. The breakdown of the aid package for Indonesia is as follows: IMF - \$ 10 billion, World Bank - \$ 4.5 billion, Asian Development Bank - \$ 3.5 billion, Indonesian own reserves - \$ 5 billion. This constitutes what IMF managing director, Michel Camdessus, called the "first line defence" plan. If this proves inadequate, the United States, Japan, Singapore, Malaysia are ready to chip in with \$ 3 billion, \$ 3 billion, \$ 10 billion, \$ 1 billion respectively. A pretty impressive display indicative that so many still love the Suhartos.

"IMF Plans \$ 23 billion Bailout for Indonesia," USA Today (November 1, 1997).

Holman W. Jenkins Jr., "An Asian Family Values Bailout," Wall Street Journal (November 5, 1997).

Indonesia has pledged to overhaul its banking and financial industry, end government monopolies on particular food items, and "reconsider" its controversial national car and strategic industry programs. It has also agreed to strict monitoring of its economy by the IMF, something which the regime has strongly resisted in the past.

A minority of observers seems to be optimistic that the reforms insisted on by the IMF could help clean up what is regarded by many as Asia's most corrupt government.¹¹⁸ But a majority, including many Indonesian economists, remains skeptical. The experiences of the late 60s and mid 80s reminded them that indeed the international aid package then had a softening effect on Indonesia's austerity program. But more importantly, the readily available huge sums of aid money had also helped the regime tremendously in controlling and manipulating both the economic and the political sphere of the country in a manner that ensured its stay in power.¹¹⁹

It remains to be seen if both the technocrats and IMF have the persistence and political will to see to it that these reforms are carried through effectively and in their entirety. The

¹¹⁸ Michael Dorgan, "Treasury Secretary Believes Indonesia Needs Financial Help," San Jose Mercury News (November 2, 1997).

¹¹⁹ In 1989 the amount of annual foreign aid Indonesia received to cushion the blow of the economic crisis amounted to only \$ 4 billion, one tenth of the current IMF aid package.

Michael R.J. Vatikiotis, Indonesian Politics under Suharto: Order, Development, and Pressure for Change (London: Routledge, 1993), p. 39.

recent liquidation of sixteen bad performing banks,¹²⁰ for example, although appreciated and perceived as a good will gesture from government by very few, is merely viewed as an act too little and too late by many. Richard Robison called the move "wimpish," and "only 16 of the smallest and weakest banks were liquidated in the long awaited attack on the ailing bank sector."¹²¹ Rizal Ramli, a prominent Indonesian economic

¹²⁰ The list of those associated with the 16 banks reads like a glittering who's who of the Jakarta business and social elite. Almost each one of them are related in one way or another to the First Family.

Immediately after the closure, Suharto's son - Bambang Trihatmojo, owner of Bank Andromeda, was targeting his father's finance minister, Mar'ie Muhamad, and threatened to bring him to court. "There is a political move to disgrace my family," Bambang said, and like a spoiled child he pouted across the front pages of Indonesia newspapers, announcing that all he had done was break the law - just like the other executives heading Indonesia's banks. In Richard Robison's opinion, if Bambang continues to force the issue, "it will give real life to an anti-first family coalition."

Matters were made worse by Tommy's (Hutomo Mandala Putra), another Suharto offspring, statement that accused the Indonesian finance team under Wijoyo Nitisastro's leadership as IMF and Western collaborators.

This high level row immediately caused jitters in the Asian currency markets and send the rupiah stumbling downhill again for the nth time. Only a concerted effort by Japan and Singapore central banks to buy up huge amounts of rupiah did prevent it from spiralling out of control.

Louise Williams, "Suharto and Co: It's Time to Give a Little," Sydney Morning Herald (November 8, 1997).

"Tommy Tuduh Wijoyo Kolaborator Barat," [Tommy Accused Wijoyo as Being a Western Collaborator] [<http://www.uni-stuttgart.de/indonesia/news>] (November 5, 1997).

¹²¹ Analysis: "IMF Package More Compromise than Reform," Agence France Presse (November 5, 1997).

analyst, thought that the moves to deregulate the Indonesian economy following the IMF review look more like "a compromise solution" than a set of true reform measures.¹²² David Jenkins in his commentary described the banks' shutdown as follows:

....while many Indonesians will welcome the fact that even those at the top of the heap are being asked to make a few sacrifices, it is hard to escape the feeling that the bigger players on the national Monopoly board are simply cashing in their smaller, less valuable chips.¹²³

Very much like during past economic reforms, Suharto is prepared to hand over the reign over economic policy to the technocrat camp temporarily. But once Indonesia survives the storm, it is expected that the technocrats will be asked to return to their respective cubicles in the Ministry of Finance, and the old pattern of selected patronage will reemerge again on the Indonesian economic scene.

¹²² Ibid.

¹²³ David Jenkins, Sydney Morning Herald, November 4, 1997.

Conclusion

It is commonly believed that there is a positive correlation between economic development and democracy.¹²⁴ The higher the level of economic development, the better the prospects for democratization. The relevance of economic development to political development is not limited to the simple relationship between per capita income and the political system. Of far more importance is the effect of capital expansion and industrialization on the class structure. Development results in an expansion and transformation of classes - the capital-owning class, the middle classes, and other subordinate classes. Such a class structure change is thought to make more demands on the government and to be interested in expanding political participation. The result is that government is faced with growing demands from society which become increasingly difficult to suppress. Eventually the government becomes responsive to pressures from society and extends opportunities for political participation. The emergence of a balance between social classes creates a social environment conducive to the attainment of democracy. Such a process, for example, produced the potential and the necessary energy for voicing the demands for more

¹²⁴ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," American Political Science Review, (March, 1959).

Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992).

political openness which eventually led to democracy in South Korea.¹²⁵

Is this process taking place in Indonesia? There is no question that Indonesia has undergone rapid economic development which has brought some changes in its social class structure. However, the size and form of this transformation have not reached levels adequate for initiating demands for reform and pursuance of a more open political system. The prevalence of a patrimonial system in the Indonesian economy has meant that economic activities were initiated largely by a small group of monopolists and specially privileged capital owners. Under these non-competitive circumstances, the economy becomes wanting in its multiplier capability.¹²⁶ Import and manufacturing monopolies for example, have not only excluded other capable importers and manufacturers from becoming involved in these respective lucrative sectors, but indirectly they have also removed opportunities for many other related services, such as transportation and distribution. The production chain from procurement to retail sales has also most often suffered from pruning at several key junctures, and this condition has further caused the whole Indonesian economic system to become

¹²⁵ Sung-Joo Han, "South Korea: Politics in Transition," Democracy in Developing Countries eds. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset (Boulder, CO: Lynne Rienner Publishers, 1989).

¹²⁶ Peter Evans, Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil (Princeton, NJ: Princeton University Press, 1979), p. 28.

disarticulated. Self-standing large business groups have emerged, and they are not inter-connected and inter-dependent as a more participatory economy traditionally should function.¹²⁷ Indeed, the domination by large capital owners in the retail sector, for example, has cut several traditional distribution and small channels for middlemen, both Chinese and indigenous entrepreneurs, in many provincial cities across Indonesia. This kind of domination of the country's economy means that various economic sectors are dotted with only several actors, and not saturated through participation of a larger pool of potentially capable economic players.

While we are witnessing an impressive economic growth in macroeconomic terms throughout the New Order reign, a closer and more detailed observation will reveal that a considerable mass of the population was not involved in economic development and consequently has not enjoyed the fruits that development is supposed to have brought them.¹²⁸ The middle classes and the

¹²⁷ Yuri Sato, "The Development of Business Groups in Indonesia: 1967-1989," Approaching Suharto's Indonesia from the Margins eds. Takashi Shiraishi (Ithaca, NY: Cornell University, Southeast Asia Program, 1995), p. 151-152.

¹²⁸ Recently, the frequency of anti-Chinese and anti-Christian rioting have increased considerably and it has taken place in a number of small towns across the archipelago. While a number of explanations has been provided, from clash of civilizations (religious, ethnic) to social justice arguments, one proposition that is increasingly gaining credence is the economic linkage argument.

Metaphorically speaking, the situation is similar to a Peter Pan's Never-Never land phenomenon where Indians, pirates, and Peter Pan and friends are moving in circles for no purpose other than eyeing each other. Since many of the traditional economical

subordinate classes have expanded, but structural change still has a long way to go before the Indonesian class structure resembles that of South Korea.¹²⁹

As formidable as the corporatist authoritarian state now might seem, there are real anxieties and dissatisfaction among certain power elites as to the permanence and longevity of the current system, particularly once Suharto passes away. Some government intellectuals have already recognized the need for the current power elite to attract new constituencies. Sarwono Kusumaatmaja, a Golkar activist and Minister for Population and Environment, for example, has called for expanding Golkar beyond its traditional bureaucratic and military streams, and attracting more political participation from the business community, NGOs,

linkages in smaller urban cities have been severed and new ones not created, people are not occupied by and motivated in economic and other wealth producing activities. Under this vacuum, different groups of people - indigenous Muslims, Christians, and Chinese - are observing each other with prejudice and great suspicion. It will only take a small conflict among these antagonistic parties to spark the latent hatred and emotions which could further easily cause an urban riot.

Why, for example, have riots not taken place in Bali so far? Because a thriving tourist economy has given opportunities to all members of the Balinese society, business groups, Chinese middlemen, indigenous craftsmen and artists, and a huge tourist related workforce. The socio-economic conditions in Bali are simply not conducive to explosive inter-racial as well as inter-religious conflict situations.

Noordin Salim, "The Ujung Pandang Case: The Severance of Economic Linkages," [Kasus Ujung Pandang: Terputusnya Economical Linkage] [paroki@parokinet.org] (September 25, 1997).

¹²⁹ Harold Crouch, "Democratic Prospects in Indonesia," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Center of Southeast Asian Studies, 1994), p. 116.

and traditional rural Islamic leaders. He argued that this is the only avenue for the state if Golkar is to survive a post-Suharto presidency and the "Second Long Term Development Phase," the current government jargon for the second quarter century of development.¹³⁰

Meanwhile, democratic activists are talking of building a national network through local campaigns and NGOs activities, but they have simultaneously conceded that this might take years before it becomes a reality, and admittedly, there is no opposition group or personality who has a truly national following.¹³¹ The exception is, of course, Megawati Sukarnoputri, but it is hard to imagine under current circumstances that she would be allowed a seat at the negotiating table. The army would then be hard to convince.

¹³⁰ Bill Liddle, "Can All Good Things Go Together? Democracy, Growth, and Unity in Post-Suharto Indonesia," Democracy in Indonesia: 1950s and 1990s eds. David Bourchier and John Legge (Clayton, AU: Monash University, Centre of Southeast Asian Studies, 1994), p. 298-299.

¹³¹ Economist, "Divided and Ruled: Pressure for Democratic Reform has yet to Achieve Critical Mass," (July 26, 1997).

Chapter Five

The Prospects for Democratization in Indonesia

Judging from the manner capital development has evolved in Indonesia for the last three decades, and the accompanying social transformation that has taken place, there is little indication that a more open and democratic political system in Indonesia is forthcoming.

Political scientists have adopted several approaches to explain the emergence of democratization and democracy. Some stress the role of the bourgeoisie and the middle classes as the primary driving force for participatory politics,¹ others give more weight to the power balance within a wider class structure.² A growing number of theorists argues that more emphasis should be given to the role of specific actors and events, while not neglecting the importance that economic and social structures render in advancing democracy.³ Recently, Stephan Haggard and Robert Kaufman advanced the economic crisis

¹ Barrington Moore, Jr., Social Origins of Democracy and Dictatorship: Lord and Peasant in the Making of the Modern World (Boston: Beacon Press, 1966), 559 pages.

² Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), 387 pages.

³ Doh Chull Shin, "On the Third Wave of Democratization: A Synthesis and Evaluation of Recent Theory and Research," World Politics, 47 (October 1994), p. 138-139.

Guillermo O'Donnell, and Phillippe C. Schmitter, Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore, MD: John Hopkins University Press, 1986), p. 19.

theory as a source for eventual power handover and initiation toward democratization.⁴

In Indonesia, neither the socio-economic structure nor the constellation of actors is particularly favorable toward democratization. Although the economic crisis theory is very interesting and insightful, it does not seem to conform with both the local and international context that Indonesia finds itself in. The most likely outcome is that Indonesia will be ruled by an authoritarian regime for a while longer, at least until Suharto passes away from the political scene. Then perhaps, gradual liberalization and incremental construction of more open political institutions can at last begin in earnest.

In the following sections, these theoretical arguments and their fit with the Indonesian situation will be explored further. To provide a comparative perspective with another Asian country's democratization experience, initially the story of the South Korean capital development will be presented. It will be followed by a comparative analysis. Indonesia's and South Korea's relevant experiences will be highlighted and contrasted in order to provide an understanding and an insight why democratization has failed and emerged in these respective countries. The remainder of this chapter will deal with elite rivalries and the economic crisis arguments respectively.

⁴ Stephan Haggard and Robert Kaufman, The Political Economy of Democratic Transitions (Princeton, NJ: Princeton University Press, 1995), 391 pages.

The South Korean Experience

There are both significant similarities and striking differences between South Korea and Indonesia. Although the similarities comprised relevant elements for development, the differences, particularly in terms of choices and implementation of capital development policies, turned out to be crucial in determining their different outcomes.

South Korea began its decolonization process at approximately the same time as Indonesia, and formed a republic under the leadership of Syngman Rhee in 1948. In 1961 a military coup d'etat ousted the civilian government, and, like Indonesia, the country was led by a military backed government (up to 1987). Under the leadership of an authoritarian regime, the country also embarked on a journey to develop a capitalist economy, oriented itself internationally toward the United States, and attained its present position within the confines of the United States postwar Pacific hegemony. Here the similarities with Indonesia stop.

One significant difference between South Korea and Indonesia is their respective growth performances. Not widely known is the fact that these two countries, in terms of GNP per capita, started from relatively similar positions back in 1960, and even up to 1975 they were relatively still on the same level, as is shown in the following table:

GNP Per Capita (current \$US)⁵

	<u>1960</u>	<u>1975</u>	<u>1984</u>	<u>1992</u>
South Korea	80	243	2,044	6,790
Indonesia	60	215	540	670

The data show that the ratios between South Korea and Indonesia went from roughly 1:1 in 1960, to 4:1 in 1984, and climbed to 10:1 by 1992.

South Korea lacked natural resources, and its officials had to rely on foreign assistance and offshore lending to jump start their industrialization process. Over a 17 year development period Korea received a total of only \$ 8.7 billion in bilateral and multilateral assistance. In contrast, the Indonesian state enjoyed financial resources at its direct disposal not only in vastly larger amounts, but also from more diverse sources. From 1973 through 1989, approximately \$ 116.3 billion in oil and natural gas revenues entered the state treasury, while roughly another staggering \$ 50.2 billion was supplied in the form of bilateral and multilateral assistance to the government during the same period.⁶ While, unarguably, these two countries possess considerable differences in terms of geography, size, and

⁵ Sources: for Indonesia, World Bank Reports. For Korea: through 1984 from Byung-Nak Song, The Rise of the Korean Economy (Hongkong: Oxford University Press, 1990), table 5.9, p.80. 1992 data for Korea is from World Bank Report.

⁶ Indonesia Ministry of Finance data.

Jeffrey A. Winters, "Suharto's Indonesia: Prosperity and Freedom for the Few," Current History, (December, 1995), p. 421.

population mix, it is important to observe how and through what economic policies South Korea was able to achieve such an extraordinary growth performance.

General Park Chung Hee governed with an iron hand from 1961 - 1979, but the main legacy of his reign is not so much his repressive manner of governing as his mastery in transforming South Korea into a well-rounded industrialized and internationally-respected competitive country. Going through the capital development literature on South Korea, one senses that General Park and his regime were a group of dedicated rulers, to the point of being obsessive toward making the Republic of Korea a force to be reckoned with by both the developed Western community and its traditional nemesis, the Democratic People's Republic of Korea (or North Korea).⁷

There are two distinct stages to the capital development process in South Korea during Park Chung Hee's reign. From 1961 through 1969, the South Korean economic outlook resembled very much that of a dependent country.⁸ The end of the Vietnam war,

⁷ Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), 280 pages.

⁸ From 1961 until 1969 South Korea propelled through its economy largely from economic opportunities that the war in Vietnam brought. Additionally, through normalization of its relations with Japan, its former colonizer, South Korea became an extension of Japan's manufacturing industry, and exported semi-processed goods to its former colonizer.

Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), pp. 73-117.

and a turn-around of American foreign policy from being an assertive hegemon to being a retreating super power, jolted Park Chung Hee's regime into a realization of how fragile South Korea economic position was at that time. From 1970 until General Park's assassination in 1979, South Korea embarked on a highly focused but also controversial capital expansion journey that transformed the country's economic base from labor-intensive manufacturing to an industrialized country whose sophistication is on par with the developed Western states and Japan.

At the end of 1972 after holding a "referendum" (under martial law conditions) to adopt the Revitalizing Reforms (Yushin) constitution, the heavy and chemical industrialization program was launched. The program specifically targeted six industries, steel, chemical, metal, machine-building, ship-building, and electronics. The way the literature depicted this story is as if every effort and resource within reach of the South Korean government were directed at accomplishing this program. The ambition was to create large industrial complexes, one for every industry, and each constituting "state of the art" production facilities. Jung-en Woo characterized this program in the following manner:

The Heavy and Chemical Industrialization Plan was an offshoot and reflection of a political obsession, and the new developmental discourse was a measure of this grand resolve: every new plant had to be one of the best and the largest in

the world and boasted of as almost as if the program jostled for a place in the Guinness Book of World Records. This is the political culture of late development: intense competitiveness vis-a-vis the outside, a collective sense of precariousness at home.⁹

The initiation and subsequent construction of these industries were carried out in a straightforward manner. No bureaucratic haggling was allowed, and all encompassing authority for execution of this program was bestowed on a political appointee placed in the Presidential Palace, the so-called First Economic Secretary to the President, instead of the technocrats in the Economic Planning Board. In fact, this planning board and the Ministry of Finance were often bypassed, if not dictated, about what to do. The state bought the necessary land from farmers, bulldozed the land, installed the necessary infrastructure, and not only enticed, but drafted the relevant industries to set up shop in these complexes. Once inside, these enterprises were given access to easy financing and a bunch of other sweeteners that ensured low operating costs for them.

These "all for once" efforts brought to fruition industries that were technologically the most advanced in the world. This characteristic was clearly conveyed in an interview that Jeffrey Winters conducted with a former top executive from Krakatau

⁹ Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), p. 131.

Steel, an Indonesian government enterprise:

Both Korea and Indonesia entered the steel making business at exactly the same time in the early 1970s. But that is the only aspect of our experience that we have shared....By the early 1980s, people from US Steel were already flying to Korea to try to get some good ideas for the steel industry back in Pittsburgh. By 1990, consultants from Korea were being hired by steel companies in the US and flown over the Pacific to help boost American Steel production. Meanwhile, Krakatau Steel is not a major exporter and the steel industry in Indonesia remains weak and highly protected.¹⁰

Although South Korea does not possess a steady source of significant income through the sale of natural resources, the timing of South Korean industrialization was fortuitous. It was started at a time when the Euro market was experiencing an explosive growth and there was an increase of private sector to government lending through bank syndications. Korea's industrialization program was therefore primarily funded through private borrowings rather than the less costly public borrowings. Private sector sourcing, on the other hand, did give the South

¹⁰ Jeffrey A. Winters, "Suharto's Indonesia: Prosperity and Freedom for the Few," *Current History* (December 1995), p. 421.

Korean state more latitude and freedom to pursue its program.¹¹

One would think that such a complex development scheme as South Korea's requires a sophisticated banking system through which the money flows can be regulated and controlled adequately. The fact is that the nation's formal financial sector has remained most backward throughout. Every bank was owned and controlled by the state, and bankers acted more like bureaucrats rather than entrepreneurs. They thought in terms of GNP and not profit, and they loaned to those favored by the state.¹²

The existence of such a strong state, where there were no meaningful legislative checks or critical opposition on one hand, and possessing virtually total control over the financial matters, should have been a sure recipe for mis-management and corruption in other countries. But the story of capital development in South Korea has so far not been littered by large scale and extensive corruption as has been and is still the case in Indonesia.

This does not mean that the whole process was devoid of money scamming schemes. In fact, there were several instances where

¹¹ The World Bank and other transnational institutions thought that South Korean's competitive advantage lies in the textile industry, and this country, in their view, should pursue this avenue rather than a mix of highly uncertain industries like steel and ship-building.

Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), p. 131.

¹² Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), p. 159.

these practices took place.¹³ However, corruption in South Korea did not become institutionalized and did not become an infamous legacy that cluttered South Korea's highly successful development.

There have been a couple of explanations given for this phenomenon. The first one relates to the social psychology of the Korean society. This argument takes its cue from the fact that the South Korean people constantly faces dangerous political as well as physical threats from North Korea. In fact, the whole South Korean development exercise could be characterized as a "defensive industrialization" approach.¹⁴ It is the presence of

¹³ While corruption for personal enrichment was minimal in the Korean case, nevertheless the regime still needed a steady source of cash to fund their own political machinery and consolidate their rule over the country. From 1961 through 1969 Park obtained these funds partially from US payments for the services his troops rendered in Vietnam, and secondarily, from skimming Japanese reparation payments. During the subsequent Big Push period the sources were obtained through extracting a certain percentage from foreign loans. Jounghwon Kim estimates that this kickback ratio could have reached as high as 10%. Nonetheless, Chalmers Johnson argued that there is a beneficial aspect to this practice for the development in Korea. It made the regime relatively independent from domestic financial backers, and the regime's needs did not become a drain on investment funds for the enterprises.

Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," The Political Economy of the New Asian Industrialization, ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1988), p. 157-158.

Jounghwon Alexander Kim, The Politics of Development, 1945-1972 (Cambridge, MA: Harvard University Press, 1975), pp. 263-64.

¹⁴ Jung-en Woo, Race to the Swift: State and Finance in Korean Industrialization (New York: Columbia University Press, 1991), p. 53.

a constant outside threat that has created a sense of urgency among South Koreans and was responsible for instilling the drive, passion, and motivation of the people in making their national development program a success. Remaining in an economically backward situation could only present an easier opportunity for invasion from the North. Concurrently, this obsession with their national security has put a restraint on corrupt practices and has prevented corruption from becoming institutionalized in South Korea.¹⁵ If government officials went too far in stealing state resources, not only was a moral code being broken, but, more importantly, the capability of the nation to defend against its enemies was being jeopardized. Thus within the state itself, different actors kept an eye on each other to make sure that no one went too far in abusing their powers.

The second explanation lies within the military. While the South Korean military brass hold important levers of state power, their organization as a whole operated to American standards, and was required to perform effectively in the most tense zone of the Cold War. Their primary task was set by the Mutual Security Treaty with the United States, and the Joint Command structure placed South Korean combat troops under the command of an American commanding general. Such a situation restrained the officer corps from entertaining political and economic

¹⁵ Jeffrey Winters, "Indonesian Development: A Missed Opportunity," An unpublished paper presented at an Indonesian students gathering, (Ithaca, Cornell University, 27-30 December 1994), p. 9.

involvement in state and economic affairs, which is in sharp contrast to the practices of their Indonesian counterparts. Military revenue was limited entirely within the state budget, and extra budgetary sources of income could not have become institutionalized.¹⁶ The overall result was that a much lower proportion of the state's development resources was stolen, meaning that much more capital was available for an aggressive industrial push.

Besides propelling South Korea into the club of developed economies, the state-led capital development of South Korea has, ironically, also brought a democratic form of political system to South Korea. In December 1987, after an eight year lengthened authoritarian period (after the assassination of Park Chung Hee), South Korea finally had a relatively fair election and the people chose Roh Tae Woo as their leader.

Socio-Economic Development

In Western aristocracies, one pre-condition that had been conducive for the emergence of democratization was the independence that nobility was able to acquire from the controlling powers of the crown. Furthermore, through a complex alliance among upper class factions the cause of political freedom and openness was advanced. "No bourgeois, no democracy,"

¹⁶ Richard Tanter, "Oil, IGGI, and US Hegemony: The Global Pre-conditions for Indonesian Rentier-Militarization," State and Civil Society in Indonesia, ed. Arief Budiman (Clayton, AU: Monash University, 1994), p. 75.

has become a famous dictum formulated by Barrington Moore. Two contextual factors that strongly supported these liberal reforms were the presence of submissive subordinate classes, particularly the peasantry, and a growing and dynamic commercial trade.¹⁷

In Indonesia, the latter two requirements have been met through imposing the "mass floating" (massa mengambang) policy by the state on the peasantry and other subordinate masses, and albeit partially, through the laissez-faire policy from the late sixties to mid seventies as well as the deregulation measures in the latter eighties. However, operating under different historical conditions from the Western experiences, the delicate balance of power between the state and the bourgeoisie, and fusion among different upper class factions were not achieved. Functioning under a state-led industrialization program and a massive infusion of petro-dollars into the economy, the process of capital expansion has yielded a highly dependent new business class, a class that is totally incapable of breaking the power of the authoritarian-bureaucratic state. Although high economic growth and rapid industrialization under the New Order era resulted in huge industrial, commercial, and financial enterprises, the new capitalists did not acquire the necessary economic strength that would make them less reliant on patronage from the state. Andrew MacIntyre showed that here and there, middle level businesses were capable of organizing in order to

¹⁷ Barrington Moore Jr. Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World (Boston, MA: Beacon Press, 1966), p. 413-432.

pursue common interest collectively,¹⁸ but overall there is little to suggest that they were capable to press for increased predictability, rationality, and regularity in state's administration. Therefore, their desire to push ahead and demand broader democratic changes is at most mediocre too.

The fact that a majority of this upper bourgeoisie is Chinese is another major obstacle. There is no incentive for Chinese "pariah-entrepreneurs" to risk their favorable economic position in order to achieve political reform. In fact, such reform might well be utilized to their disadvantage by other indigenous factions of society.

The situation in South Korea has been profoundly different, and capitalists there did increasingly become independent. The core of the emerging South Korean capitalist class is the thirty to fifty conglomerate business groups, also typically known as chaebol, each owned and run by a single family. Although initially they were the creation of the state, and throughout the Big Push were in a subordinate political position vis a vis the government, their economic power has grown in proportion to the expansion of the national economy. In turn this clout has further enhanced their political power and affected state-capitalist relations. South Korean business leaders have in the process become bold, vocally attacking bureaucratic delays, and inefficiency. The power of big business has grown too big and

¹⁸ Andrew MacIntyre, Business and Politics in Indonesia (Kensington, AU: Allen & Unwin, 1990), 282 pages.

cannot be ignored in major economic policy decisions.¹⁹

In sum, the Indonesian upper bourgeoisie has remained closely tied to the regime through beneficial patronage relations, and it has no interest whatsoever in challenging its patrons, the state bureaucracy. In contrast, the South Korean chaebol gradually became independent and powerful, commensurate with the economic clout it had attained.

Despite a steady growth of the white collar and educated middle class in Indonesia, it is still small compared to the middle classes in South Korea that had also experienced sustained economic growth and industrialization.²⁰ Furthermore, a substantial segment of the Indonesian middle class is made up of government employees, while those employed in the private sector are often Chinese. Hence, like the Indonesian upper bourgeoisie, the middle class is less inclined to be at the forefront to challenge the government.

In South Korea, as a result of his persistent drive for rapid economic development, President Park succeeded in creating a substantial economic class that became the mainstay of the emerging democratic system. A survey conducted in 1987 showed

¹⁹ Hagen Koo, "The Interplay of State, Social Class, and World System in East Asian Development: the Cases of South Korea and Taiwan," The Political Economy of the New Asian Industrialism ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1988), p. 176.

²⁰ Sung Joo Han, "South Korea: Politics in Transition," Democracy in Developing Countries, eds. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset (Boulder, CO: Lynne Rienner Publishers, 1989), p. 294.

that as many as 65% of South Koreans identified themselves as members of the middle class,²¹ indicating that a social base was readily available upon which the struggle toward democracy was pursued. Moreover, the succeeding democratic government in power was able to count on the support of this class as long as it could provide continued economic growth, social stability, and security in return.

Arguing against Barrington Moore's bourgeoisie theory, Dietrich Rueschemeyer, Evelyne Stephens, and John Stephens advanced the balance of class power theory. Rueschemeyer et al. contended that despite the bourgeoisie's successes in wresting its share of political participation from authoritarian rulers in many historical instances, "it rarely fought for further extensions once its own place was secured."²² Therefore the sources for the emergence of democratization should not be sought in middle and upper class constellations only, but in a wider societal class structure, and particularly one that involves the interests of the subordinate classes. Capitalist development is thought to have the structural effect of strengthening the working class and other subordinate classes. Industrialization enlarges the urban working class at the expense of agricultural

²¹ Sung-Joo Han, "South Korea: Politics in Transition," Democracy in Developing Countries, eds. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset (Boulder, CO: Lynne Rienner Publishers, 1989), p. 294.

²² Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), p. 46.

laborers and small farmers.²³ Thus members of the lower classes are experiencing a shift from an environment that is extremely unfavorable for collective action to one that is much more favorable. Many migrated from rural areas that were isolated and immobile, to places with high concentration of people and that provided extensive communications. It is under these conditions that democratization is pushed forward by these classes. People who were traditionally excluded from ruling utilize their newly-acquired social power and organization to attain a share in the political process. Rueschemeyer et al. further asserted that the upper classes are most often opportunistic under this circumstance. For every case where the bourgeoisie included the working class in the political system (sometimes with apparent willingness, but usually only in response to actual and anticipated pressure), there is another where the bourgeoisie participated in the rollback of democracy. Ultimately, the emergence of democratization or lack thereof is the result of the balance of class power and driven primarily by class interests.

Although Indonesia belatedly managed to enlarge its manufacturing sector and the size of its working class has grown proportionately, labor in this country is still uninfluential as an organized force. In comparison, a detailed observation of the make up of the class structure in South Korea showed a rapid expansion of the industrial working class. The proportion of

²³ Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), p. 58.

production workers increased from 13.2% of the active labor force in 1960 to 28.2% in 1980.²⁴ With increased size, and excellent organizational as well as mobilizational capabilities, the South Korean labor movement had become more threatening to the government throughout the 1980s. Additionally, it created important linkages with radical student movements and organized periodic labor protests throughout the country.

Nonetheless, although the size and capability of the Indonesian labor movement is still relatively negligible, the sight of thousands of workers disrupting the production process is not a reassuring scene for a regime that has traditionally prided itself on accomplishing effective maintenance of social stability. So far, the working class struggles in Indonesia have been led by small, almost amorphous, grass-roots organizations.²⁵ Their actions are characterized by exuberance, and to some observers, they may border on anarchy. However, what may seem like anarchy could actually be the most rational strategy for workers to adopt at this point in time and at this stage of their struggles. Lacking any effective and legitimate

²⁴ Hagen Koo, "The Interplay of State, Social Class, and World System in East Asian Development: the Cases of South Korea and Taiwan," The Political Economy of the New Asian Industrialism ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1988), p. 130.

²⁵ In contrast, pre-1965 the working class and other subordinate classes were highly mobilized and much better organized primarily through the communist party apparatus, and to a lesser extent through the nationalist and other leftist parties. The crackdown and subsequent eradication of the leftwing movements after 1965 had significantly incapacitated political mobilization at the grass roots level.

channels of representation and expression of discontent, workers are forced to create their own space. This space lies outside the formal institutions and structures that the state has provided and which traditionally had govern state-society relations.

On the other hand, this emerging political undercurrent is quite difficult for the established corporatist political system to accommodate. Indeed, the recent upsurge of worker activities has succeeded in showing the New Order's vulnerability. The increasing frequency of labor strikes and demonstrations is a strong indicator that the regime in power has not been thoroughly successful in developing viable institutions and structures which are capable of dictating how state-society discourses are to be conducted. Further industrialization, which is a course from which the Indonesian state could not retreat, will in the long run ensure the growth and maturation of labor, and hopefully aid the transformation of the working class into a key actor for the development of democracy.

Simultaneously, the Indonesian students, a faction of society which finds itself on the fringes of the middle class, has increasingly become a powerful ally of the workers in their struggle for better working conditions and wages. Student activist groups, unlike the other middle classes, are not merely passive tools of the power elite, but truly independent political actors. As such, they have played a significant role in pushing forward the liberalization process over the last seven or so

years. They have re-institutionalized public protest as a normal feature of political life, and placed a number of issues on the country's political agenda - land disputes, human rights violations, and labor issues. But in terms of an indisputably powerful civilian force, the student movement as well as the labor movement remains disunited and poorly organized. Every time a protest or strike is being squashed violently by the security apparatus, there is neither a chain reaction nor a snowball effect, and, sadly, a lack of genuine outrage at the regime among the other factions of the Indonesian society.

In South Korea, the students in alliance with the working class fought for the restoration of democracy in South Korea, and in the process, they were quickly joined by the middle class citizens.²⁶

Clearly, the state-led capital development in Indonesia is not comparable to, and has not reached the same outcome as, South Korea. Notwithstanding the fact that Indonesia pursued both heavy industrialization and export intensification programs, the implementation of these programs was constantly burdened with inefficiencies originating from fulfilling the needs of a pervasive patrimonial system. The regime in power has for the most part been content to live off the oil rush and annual renewals of its foreign loans. This combination of

²⁶ Sung-Joo Han, "South Korea: Politics in Transition," Democracy in Developing Countries, eds. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset (Boulder, CO: Lynne Rienner Publishers, 1989), p. 287.

patrimonialism and availability of huge financial resources had acted as a prescription for inhibiting a thorough social transformation in the country.

On the other hand, South Korea has actively coordinated capitalist and state investments with an eye to further optimizing South Korea's own national welfare in terms of its international trade. It has taken an active mercantilist posture vis a vis the international system.²⁷ For South Korea, the keywords to depict its development approach were "competitiveness" and "market forces," while, tragically, in Indonesia the unspoken rule was constantly one of "championing the patron-client's interests."

As a result, South Korea has not only achieved a developed stage, and internationally recognized as a competitive trading country, but it has also transformed the overall make up of its society. It was not macro economic growth alone, but the state's policies produced an economy in which the top 10% of the population has received only half of what their counterparts in major Latin American NIC's received,²⁸ another important indication that a much fairer distribution of economic wealth has taken place in this East Asian country. In turn, the balance of

²⁷ Richard Tanter, "Oil, IGGI, and US Hegemony: the Global Pre-conditions for Indonesian Rentier-Militarization," State and Civil Society in Indonesia, ed. Arief Budiman (Clayton, Victoria: Centre of SEA Studies, Monash University, 1994), p. 73.

²⁸ Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americanists," The Political Economy of the New Asian Industrialization, ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1988), p. 222.

power within its new societal class structure has further led to the successful transformation of their political system. Hence, precisely like Rueschemeyer et al.'s predictions, capitalist development in South Korea has acted as a facilitating factor for democratization because of its role in affecting and transforming the societal class structure configuration and changing the balance of power among the classes. In the end, democratization in Korea was pushed forward by class interests.²⁹

Political Factors

Increasingly, political scientists have de-emphasized the importance of socio-economic structures and underscored political factors as prime variables to explain the path to democratic transition. Accordingly, their preoccupation has shifted to the performance of political institutions and rivalries within the political elites.³⁰ It is suggested that even when the socio-economic structure is not particularly conducive for democratization (but not totally irrelevant), favorable political circumstances might make progress toward democracy possible.

²⁹ Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), p. 44.

³⁰ Doh Chull Shin, "On the Third Wave of Democratization: A Synthesis and Evaluation of Recent Theory and Research," World Politics, 47 (October, 1994), p. 138-139.

Larry Diamond, "Introduction: Persistence, Erosion, Breakdown, and Renewal," Democracy in Developing Countries: Asia, volume 3, eds. Larry Diamond, Juan J. Linz, and Seymour M. Lipset (Boulder, CO: Lynne Rienner Publishers, 1989), p. 49-50.

Guillermo O'Donnell and Philippe Schmitter, for example, argued for the following:

no transition can be forced purely by opponents against a regime which maintains cohesion, capacity, and disposition to apply repression....there is no transition whose beginning is not the consequence - direct or indirect - of important divisions within the authoritarian regime itself, principally along the fluctuating cleavage between hard-liners and soft-liners.³¹

Similarly, Adam Przeworski argues "that the critical threshold in the transition to democracy is precisely the move by some group within the ruling bloc to obtain support from sources external to it."³² The key to change lies less in pressures arising from society than in disunity and lack of cohesiveness of the authoritarian rulers, and in many instances, elite-led change seems a more likely avenue.

A key event in this regard was the rift between President Suharto, and the Armed Forces Chief of Staff, General Benny

³¹ Guillermo O'Donnell and Philippe C. Schmitter, Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore, MD: John Hopkins University Press, 1986), p. 19.

³² Adam Przeworski, "Some Problems in the Study of the Transition to Democracy," Transitions from the Authoritarian Rule: Comparative Perspectives eds. Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead (Baltimore, MD: John Hopkins University Press, 1986), p. 56.

Murdani, two Indonesia's most powerful political figures in the late eighties.³³ Their rivalry was not contained within the elite, but has spilled over into society. The military leaders, who sided with Benny Murdani, have been cultivating the pro-democracy forces which they had previously suppressed, while the President has been appealing to the Muslim organizations which had previously been most alienated by his policies.

In the end, however, the "openness" arising from elite rivalry did not outlast the elite rivalry itself. Once Suharto managed to re-consolidate his power over the army, the extra-state actors, particularly the Muslim intellectuals brought into the power circle as a result of the elite rift, proved to be a negligible force.³⁴ Clearly, the openings that became available during the height of the elite conflict proved to be a narrow one, and no broadening of the regime political base has taken place during the interim.

The ease with which Suharto regained control over the military, perhaps also signifies that the fissure in the government and military has been somewhat exaggerated. It is admittedly very difficult to measure accurately the continuously

³³ This conflict was described in greater detail in Chapter Four: The Social and Political Implications.

³⁴ Leading to the 1997 election, the voices of certain Muslim politicians within government grew louder. After the election was over, Suharto immediately ordered Habibi to remove Amin Raies, the head of the Muhammadiyah - a large Muslim organization, from his post in ICMI. Almost at will and without much fanfare, Suharto, again, succeeded in removing politicians he personally dislike.

fluid political alignments in the military. While there are distinct anti-Suharto sentiments, they are far from uniform and perhaps not even dominant. Most officers have so far preferred to sit it out, and even those who have been most opposed to the palace, Sudharmono, and Habibi have been very hesitant and cautious. Moreover, the armed forces are deeply ingrained with a doctrine of loyalty and discipline.

Judging from Suharto's advanced age, and the inevitability of his not-too-distant departure from the presidency, the discontented elements are perhaps postponing their oppositional moves for the time being. Thus further confrontation has been avoided, while in the meantime they are constantly in the process of strengthening their position.

During the brief openness period, there may have been ruling elements who were pushed some way further than they had wished for, but none to the extent that their interests have significantly been threatened. Similarly, so far, friction in the regime has not deepened into the kind of dissension which could provide a decisive opening for the oppositional groups in civil society. Had there been a socio-economic structure that consisted of elements that were less dependent on state patronage, the outcome of the power dynamics following in the heels of intra-elite rivalries would have been completely different.

Once Suharto has passed from the political scene, it is highly improbable that his successor will have accumulated all the

necessary powers to lead and govern the country. It is then necessary for her or him to seek support from extra-state actors and groups. When this time comes, the civilian forces in the country should be better prepared to make use of the opportunities that will be provided by such a process. The pro-democracy forces need to consolidate, unite, and organize themselves in a politically-effective manner if they then want to further the cause of liberalization.

Economic Crisis

Another source for the demise of authoritarian rule is a prolonged economic crisis. Stephan Haggard and Robert Kaufman studied six countries where they found that disintegration of the economy led to a political crisis and, eventually, a power handover from an authoritarian regime to pro-democracy opposition groups.³⁵ The countries were pursuing a capitalist development path, and were characterized by a declining agrarian population, substantial industrialization, sizeable middle and working classes, and interestingly, substantial differentiation between business elites and politico-military organizations.

The onset of the crisis was typically signaled by a serious

³⁵ In total there were 12 sample countries researched by Haggard and Kaufman. In Latin America: Argentina, Bolivia, Brazil, Chile, Peru, Mexico, and Uruguay. In Asia: Korea, Taiwan, the Philippines, Thailand, and Turkey.

Stephan Haggard and Robert Kaufman, The Political Economy of Democratic Transitions (Princeton, NJ: Princeton University Press, 1995), 391 pages.

deterioration in the country's balance of payments situation, then followed by severe pressures on the local currency exchange rate, and depletion of the central bank's foreign currency reserves. Usually these unfavorable conditions were caused by past domestic economic policy mistakes. If the crisis became protracted, apparently through tense and inconclusive negotiations with the IMF and external creditors, as well as a freeze on external financing, the state of the economy could quickly slide downward further, leading to a noticeable slowdown in economic activities, an increase in unemployment, and a deterioration in real wages. Ultimately, under these dire conditions, economic policy became the focal point for intra-elite conflict as well as mass mobilization, the kinds of political struggles that eventually lead to democratization. The governments of Argentina, Bolivia, Brazil, Peru, Uruguay, and the Philippines were incapable surviving their respective economic crises, and in the end each authoritarian regime in these countries was forced to hand over political power to opposition groups.

Yet, there were also regimes that did not crumble and did not democratize in response to an economic crisis, notably the authoritarian regimes in Africa and the Middle East. Aside from showing similar structural characteristics to Indonesia, particularly facilitation by a highly dependent private sector, and relative weakness of organized interests, the survival of these regimes was also attributable to continued backing by

external patrons. In this respect, it is very interesting to note that the conduct of the dictators in these countries was very similar to Suharto's customary means of domination. Haggard and Kaufman described their demeanor as follows:

But into the early 1990s, predatory personalist rulers were surprisingly adept at resisting reform and clinging to office through continued access to external aid, repression, and careful maintenance of select patronage relations.³⁶

In this regard, it is interesting and meaningful to assess the outlook of the crisis currently gripping the Indonesian economy.³⁷ In spite of the IMF's 40 billion dollar bailout package, the Indonesian current economic crisis shows no sign of abating. In fact, the rupiah dropped another 10.3% against the dollar on December 9,³⁸ making it almost a 100% devaluation relative to its value in August.

This storm is, in no small degree, caused by investors disappointment over the slow implementation of the terms of the IMF rescue package. The government has released few details of its intended reforms under the IMF program. The half-heartedness

³⁶ Stephan Haggard and Robert R. Kaufman, The Political Economy of Democratic Transitions (Princeton, NJ: Princeton University Press, 1995), p. 36.

³⁷ This crisis was described in greater detail in Chapter Four: The Social and Political Implications.

³⁸ Louise Williams, "Rupiah Drops on Fears For Suharto," Sydney Morning Herald (December 10, 1997).

at reform and lack of assertiveness shown by government this time, relative to the successful reform of the mid-eighties, could be explained by the different condition that existed during each respective period. The main losers in the past reform were fairly easy targets. They were either government-run monopolies or weak-patron clients. Indeed, members of the First Family, and Chinese businessmen with access to the palace, actually profit from the past-reform process by being handed licences, and being invited to form joint ventures with foreign partners to compete against inefficient government monopolies.³⁹ This time, however, the technocrats have a very powerful group of patrons, backed by the President himself, to contend with. The group is mainly run by members of the First Family, and a small coterie of Chinese with well protected business interests who have the President's ear as well. The reform demanded by the technocrats and its prime ally, the IMF, is going to be extremely painful for these well-connected individuals. Suharto is therefore very reluctant to reform the economy thoroughly, and tackle, once and for all, the chronic nepotism and corruption plaguing the government.

Consequently, this situation has created an atmosphere that lack investors trust. Michael Backmann, a Jakarta-based

³⁹ The complex web of the First Family business connections with a wide array of foreign MNCs is portrayed in the following Business Week's article:

Pete Engardio and Michael Shari, "The Suharto Empire: Can the Family's Big-Business Deals Survive After the President is Gone?" Business Week (August 19, 1996).

economist, described this situation most vividly in the following paragraph:

Confidence is a relative concept and while every other government in the region appears to be making the right moves, this one hasn't. There is very little transparency at the top, there is an aging president with no obvious successor, the economy is highly politicized and there is next to nothing in terms of legal guarantees for foreign investors.⁴⁰

The coming months could also see a rise in social unrest. Although the government is not going to cut food and fuel subsidies in the near future, the CPI is already up from 5.7% in August to 7.1% in September.⁴¹ Hence, if food prices are going to surge up anyway, the situation is really going to become critical and this will be only one short step further from anti-Chinese riots and labor unrest. But in all likelihood, due to the strength of the state, such social unrest is unlikely going to lead political instability, and Suharto is almost certain to be re-elected president by parliament next March, 1998. Therefore, it seems that Stephan Haggard's and Robert Kaufman's prediction - economic crisis will lead to democratization - is not going to materialize in Indonesia, and the country will

⁴⁰ Louise Williams, "Rupiah Drops on Fears For Suharto," Sydney Morning Herald (December 10, 1997).

⁴¹ "Country Risk Report: Indonesia," The Observer (November 4, 1997), p. 4,5.

remain in the grip of an authoritarian regime for a couple more years until Suharto passes away from the political scene.

Conclusion

At first glance, it seems surprising that the steady growth that the Indonesian economy experienced over the past three decades has not created a push for political opening. But observers and economists alike have too often set their sights on the incorrect variables and parameters. It is not the pace of economic growth, the speed of change from year to year, that matters, but rather the demands for political pluralism expressed in the context of higher economic wealth. Only when larger portions of the population reach a significant level of prosperity will people generally desire a greater say in their political destiny. Indonesia, despite its rapid growth and glowing evaluations from the international agencies and several analysts, has by and large remained a relatively poor country.

Indeed, Indonesian capital development, rather than empowering its civil society, has strengthened considerably the authoritarianism of the New Order government. Within this context, it is of utmost importance who in the end is more successful at the political mobilization process, society or state. To the extent that the state is able to direct the flow of information, control the structure of the new organizations, and utilize them to effect its purposes, it enhances its own autonomous influence, moving the regime in a more authoritarian

direction. Conversely, to the extent that it is civil society that controls and enhances its relative power most in the process, the regime is driven in a liberalizing direction. It is clear that for the past three decades, the political mobilization process in Indonesia has continuously been won by the state, and to a large degree this was made possible by the huge resources readily available for Suharto and the state to dispose of.

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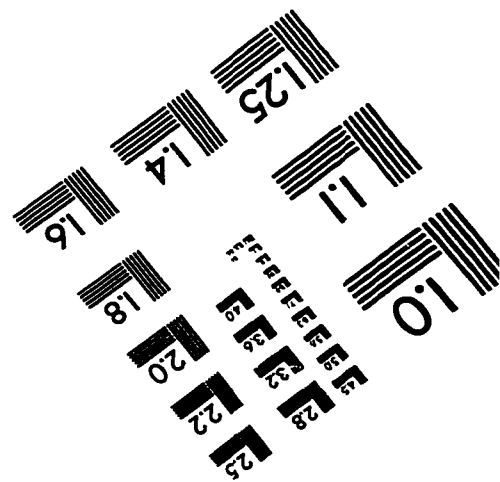
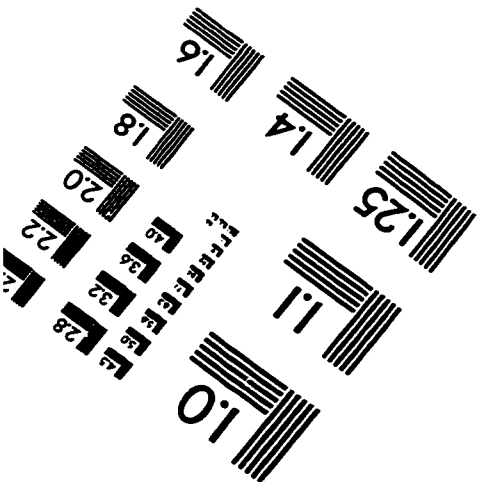
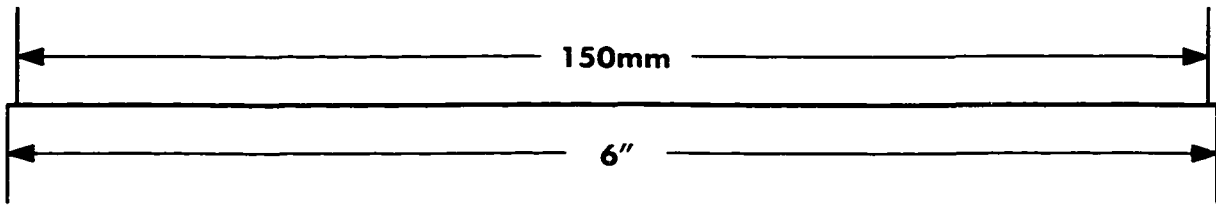
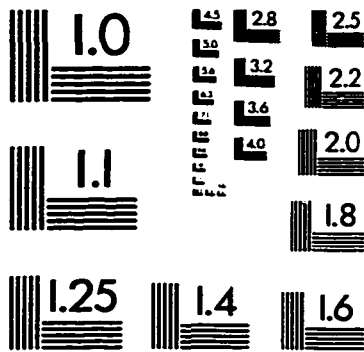
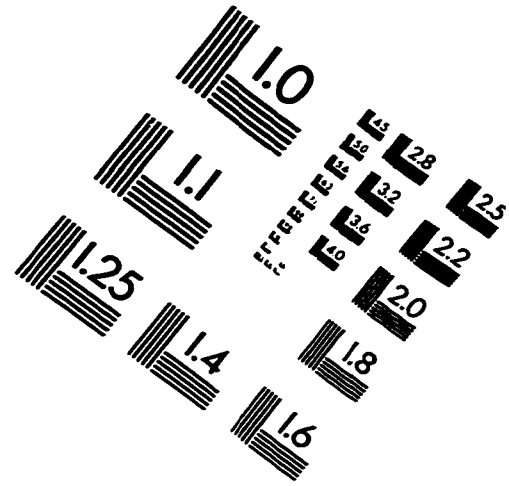
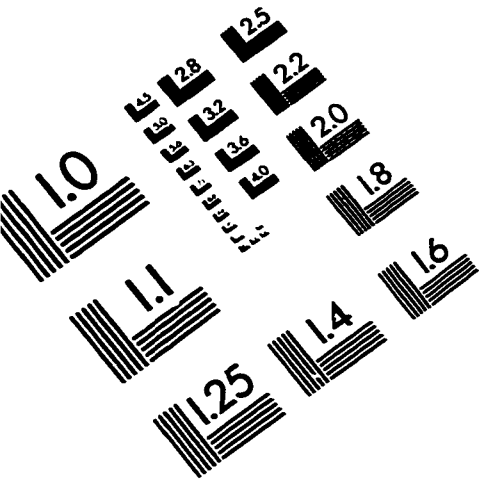
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