

DEVELOPMENT ADMINISTRATION

VIII. FROM DEVELOPMENT TO DEMOCRACY

LESSON FROM INDONESIA



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The Indonesian Archipelago



- ❑ a country of 240 million (as of 2008).
- ❑ an archipelago strung 5000 kilometers along the equator.
- ❑ more than 13,000 islands, 5,000 are inhabited.
- ❑ more than 200 ethnic groups and 350 languages and dialects.
- ❑ 85 to 90% are Muslims.

FROM *STAR-PERFORMER* TO *SICK MAN*

- ❑ THE 1997 ASIAN FINANCIAL CRISIS AFFECTED A NUMBER OF THE SO-CALLED ASIAN TIGERS BUT RESERVED ITS STRONGEST, AND MOST LASTING, IMPACT FOR INDONESIA. THAT COUNTRY'S ECONOMIC IMPLOSION CAUGHT OBSERVERS AND ANALYSTS BY SURPRISE BECAUSE FEW THOUGHT THAT THE INDONESIAN ECONOMY WAS PARTICULARLY VULNERABLE TO A FINANCIAL COLLAPSE.

- ❑ ADMITTEDLY, INDONESIA'S ECONOMIC PERFORMANCE DID NOT MATCH THAT OF THE EARLY EAST ASIAN DEVELOPERS SUCH AS SINGAPORE, HONG KONG, TAIWAN AND ESPECIALLY KOREA, BUT ITS ECONOMIC ACHIEVEMENTS, PARTICULARLY IN THE LATTER HALF OF THE 1980S AND THROUGH THE EARLY 1990S, EARNED INDONESIA INCREASING RESPECT FROM THE INTERNATIONAL COMMUNITY .

- ❑ INDEED, DURING THE PERIOD FROM MID-1985, WHEN A NUMBER OF MAJOR POLICY REFORMS WERE PUT INTO PLACE, TO MID-1997, WHEN THE ECONOMIC CRISIS TOOK ITS TOLL, INDONESIA'S ECONOMIC PERFORMANCE SUGGESTED THAT IT WAS WELL ON ITS WAY TO JOINING THE RANKS OF THE "ASIAN TIGERS."
- ❑ INDONESIA'S REAL GDP/CAPITA INCOME, GREW AT A RATE THAT MATCHED THAT OF THE RAPIDLY GROWING ASIAN ECONOMIES, ESPECIALLY MALAYSIA AND KOREA, ALTHOUGH INDONESIA'S GROWTH BEGAN FROM A LOWER ABSOLUTE PER CAPITA INCOME LEVEL.

- ❑ IT IS PERHAPS NOT SURPRISING THEN THAT MANY ANALYSTS, ENCOURAGED BY THE IMPROVEMENTS THEY OBSERVED IN INDONESIA'S ECONOMIC MANAGEMENT AND THE RESULTS ACHIEVED IN TERMS OF RAPID GROWTH, STRUCTURAL CHANGE AND POVERTY ALLEVIATION, PRAISED INDONESIA AS ONE OF ASIA'S SUCCESS STORIES.

- ❑ THE 1997 *GLOBAL COMPETITIVENESS REPORT* POINTED OUT THAT **BRAZIL, CHINA, INDIA AND INDONESIA**, THE "**GOLIATH DEVELOPING COUNTRIES**," HAD "TAKEN IMPORTANT STRIDES IN ECONOMIC REFORM IN THE PAST DECADE, AND ALL EXCEPT INDIA ADVANCED IN ... THE COMPETITIVENESS RANKING"
- ❑ **THE REPORT SHOWED THAT INDONESIA'S GLOBAL COMPETITIVENESS RANKING ROSE FROM THIRTIETH PLACE IN 1995 TO FIFTEENTH PLACE IN 1996, PLACING IT IMMEDIATELY BEHIND JAPAN.**

- ❑ IT WAS ALSO DURING THE 1990s, WHEN INDONESIA SEEMED ON A FAST DEVELOPMENT TRACK, THAT ITS ECONOMIC POLICIES WERE HELD UP AS AN OBJECT LESSON FOR OTHER DEVELOPING COUNTRIES.
- ❑ INDONESIA, WHICH HAD PUT INTO PLACE MANY OF THE POLICY PRESCRIPTIONS THAT CLOSELY RESEMBLED THE "WASHINGTON CONSENSUS," WAS CONSIDERED AN APPROPRIATE ROLE MODEL BECAUSE IT HAD MANAGED TO SHIFT FROM A RELATIVELY CLOSED ECONOMY WITH STRONG PROTECTION FOR NEARLY ALL DOMESTIC SECTORS TO A MORE OPEN ECONOMY THAT WAS INCREASINGLY ABLE TO COMPETE IN THE GLOBAL MARKET.

Washington Consensus

- The **Washington Consensus** is a phrase initially coined in 1989 by [John Williamson](#) to describe a relatively specific set of ten economic policy prescriptions that constituted a "standard" reform package promoted for [crisis-wracked](#) countries by [Washington, D.C.](#)-based institutions such as the [International Monetary Fund \(IMF\)](#), [World Bank](#) and [U.S. Treasury Department](#).^[1]
- The term "Washington consensus" has acquired a secondary connotation, being used to describe a less-precisely stipulated gamut of policies, broadly associated with expanding the role of market forces and constraining the role of the state, sometimes also described (almost invariably pejoratively) as [neo-liberalism](#) or [market fundamentalism](#).
- The Washington Consensus, especially in this second, broader formulation, has been the target of sharp criticism by some individuals and groups who argue that it is a way to open up less developed countries to [investments](#) from large [Multinational corporations](#) and their wealthy owners in advanced [First World](#) economies, which the critics would view as a negative development.
- Critics frequently cite the [Argentine economic crisis of 1999-2002](#) as a case in point of why they believe that Washington Consensus policies are flawed, as they argue that [Argentina](#) had previously implemented most of the Washington Consensus policies as directed. Some economists, by contrast, question how closely Argentina had in fact followed the Consensus policies.

The consensus included ten broad sets of recommendations:

- [Fiscal policy](#) discipline;
- Redirection of [public spending](#) from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary [education](#), primary [health](#) care and [infrastructure investment](#);
- [Tax reform](#) – broadening the tax base and adopting moderate marginal tax rates;
- [Interest rates](#) that are market determined and positive (but moderate) in real terms;
- Competitive [exchange rates](#);
- [Trade liberalization](#) – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform [tariffs](#);
- Liberalization of inward [foreign direct investment](#);
- [Privatization](#) of [state enterprises](#);
- [Deregulation](#) – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of [financial institutions](#); and,
- Legal security for [property rights](#).

- ❑ BUT BY THE END OF THE DECADE A VERY DIFFERENT VIEW EMERGED. ALTHOUGH A NUMBER OF THE ASIAN MIRACLE ECONOMIES WERE SEVERELY AFFECTED BY THE ASIAN FINANCIAL CRISIS, INDONESIA FARED WORST, QUICKLY TURNING FROM A "**STAR PERFORMER**" TO THE "**SICK MAN OF EAST ASIA**."
- ❑ ITS ECONOMY PROVED LESS RESILIENT TO THE ASIAN FINANCIAL TURMOIL THAN OTHER ASIAN ECONOMIES AND ITS RECOVERY HAS BEEN SLOWER AND MORE HESITANT THAN THAT OF THE OTHER AFFECTED ASIAN COUNTRIES.

- ❑ GIVEN INDONESIA'S ECONOMIC TRACK RECORD OVER THE PERIOD BETWEEN 1985 AND 1997, SOME OBSERVERS THOUGHT IT PUZZLING THAT THE ECONOMY WOULD SUFFER SUCH A SEVERE AND SUDDEN COLLAPSE WHEN FACED WITH AN EXTERNAL SHOCK.
- ❑ A NUMBER OF STYLIZED MODELS HAVE BEEN PUT FORWARD TO EXPLAIN THE DEPTH AND SPREAD OF THE ASIAN CRISIS, PARTICULARLY RELEVANT TO INDONESIA.

- ❑ DESPITE THE DIFFERING DESCRIPTIONS OF THE ORIGINS OF THE FINANCIAL CRISIS, THE CORE OF MANY EXPLANATIONS IS THE ASSUMPTION THAT THE ECONOMIC SYSTEM WAS LESS WELL MANAGED THAN THE MAJOR ECONOMIC INDICATORS SUGGESTED.

- ❑ RATHER THE LESSON TO BE LEARNED IS THAT BASIC MACROECONOMIC INDICATORS OFTEN FAIL TO REFLECT THE GROWING WEAKNESSES (OR STRENGTHS) OF THE NATIONAL POLITICAL AND SOCIAL INFRASTRUCTURE THAT PROVIDE THE ESSENTIAL FRAMEWORK FOR SUSTAINED ECONOMIC GROWTH.

- ❑ THE COLLAPSE OF THE INDONESIAN ECONOMY ILLUSTRATES THE NEED FOR COMBINING MEASURES OF GLOBALIZATION AND INTERNATIONAL INTEGRATION WITH A CONCERTED EFFORT TO STRENGTHEN INSTITUTIONAL FRAMEWORKS, SUCH AS AN INDEPENDENT AND REASONABLY COMPETENT JUDICIARY, STRENGTHENED CORPORATE GOVERNANCE AND BANKING SECTOR OVERSIGHT, AS WELL AS A POLITICAL SYSTEM OPEN TO CHANGE.

- ❑ WHAT APPEARED TO MANY TO BE AN ECONOMY THAT HAD A REASONABLE RECORD OF SUCCESSFUL ECONOMIC MANAGEMENT WAS IN FACT A POLITICAL AND ECONOMIC SYSTEM WHOSE STRENGTHS AND INSTITUTIONAL BASE HAD BEEN WEAK AND PROGRESSIVELY WEAKENED BY THE CRISIS.

LESSON FROM INDONESIA

Regime Change in Indonesia



NEW ORDER GOVERNMENT: A SUCCESS STORY

DEVELOPMENT TRILOGY

1. STABILITY
2. GROWTH
3. EQUITY

POLITICAL STABILITY

- ❑ THE NEW ORDER GOVERNMENT UNDER PRESIDENT SUHARTO GOVERNED INDONESIA FOR 32 YEARS (1966-1998)
- ❑ FROM THE BEGINNING POLITICAL STABILITY WAS RELENTLESSLY PURSUED AND SUCCESSFULLY MAINTAINED
- ❑ THE MILITARY, THE BUREAUCRACY AND GOLKAR (THE GOVERNMENT'S PARTY) CONSTITUTED THE POLITICAL PILLARS OF THE NEW ORDER
- ❑ THE FLOATING MASS DEPOLITICIZING OF THE MASSES, CONSTITUTED AN IMPORTANT ASPECT OF THE POLITICAL STRATEGY TO SUSTAIN LONG-TERM POLITICAL STABILITY.
- ❑ THE POLITICAL SYSTEM HAD PRODUCED THE INTENDED RESULT: POLITICAL STABILITY THAT HAD ENDURED FOR THREE DECADES, SUSTAINING ECONOMIC GROWTH WHICH IN TURN FURTHER REINFORCED ITS CLAIM TO LEGITIMACY.

ECONOMIC DEVELOPMENT

- POLITICAL STABILITY ASSURED, AND WITH UNIFORMITY OF PURPOSE AND METHOD THE NEW ORDER EARNESTLY EMBARKED ON ECONOMIC DEVELOPMENT, WHICH WAS WIDELY CONSIDERED AS SUCCESSFUL USING VARIOUS STANDARD OF MEASUREMENTS

EAST ASIAN MIRACLE

- THE ECONOMIC PERFORMANCE OF PRE-CRISIS INDONESIA COULD BE SEEN AS PART OF A GENERAL PATTERN OF SUCCESSFUL ECONOMIC DEVELOPMENT IN ASIA.
- HPAES ARE:
 - JAPAN (THE LEADER)
 - HONG KONG, THE REP. OF KOREA, SINGAPORE AND TAIWAN (*THE FOUR TIGERS*).
 - INDONESIA, MALAYSIA AND THAILAND (*NEWLY INDUSTRIALIZING ECONOMIES OF SOUTHEAST ASIA / NIE*).

- ❑ SINCE 1960 THE HPAES HAVE GROWN MORE THAN:
 - TWICE AS FAST AS THE REST OF EAST ASIA.
 - THREE TIMES AS FAST AS LATIN AMERICA AND SOUTH ASIA.

CHARACTERISTICS

- ❑ HIGH AVERAGE RATE OF ECONOMIC GROWTH
- ❑ DECLINING INCOME INEQUALITY.
- ❑ RAPID PRODUCTIVITY GROWTH.
- ❑ HIGH RATES OF GROWTH OF MANUFACTURED EXPORTS.
- ❑ DECLINES IN FERTILITY.
- ❑ HIGH GROWTH RATES OF PHYSICAL CAPITAL, SUPPORTED BY HIGH RATES OF DOMESTIC SAVINGS AND INVESTMENT.
- ❑ HIGH INITIAL LEVELS AND GROWTH RATES OF HUMAN CAPITAL.

INDONESIA'S ECONOMIC LIBERALIZATION

- ❑ IN THE EARLY STAGE OF DEVELOPMENT, INDONESIA DEPENDED ON OIL INCOME AND FOREIGN ASSISTANCE.
- ❑ 1980: INDONESIA EMBARKED ON VARIOUS ECONOMIC REFORMS TO EMBRACE GLOBALIZATION.
- ❑ ELEMENTS OF ECONOMIC LIBERALIZATION PRE-1980.
 - ADOPTION OF AN OPEN CAPITAL ACCOUNT.
 - THE BALANCED BUDGET POLICY.
 - COMPETITIVE REAL EXCHANGE RATE WITH PERIODIC ADJUSTMENTS.

- ❑ ELEMENTS OF ECONOMIC LIBERALIZATION POST-1980:
 - DEREGULATION OF FOREIGN TRADE.
 - REDUCTION AND REMOVAL OF RESTRICTIONS ON FOREIGN DIRECT INVESTMENT.
 - LIBERALIZATION OF FINANCIAL SECTOR.
 - ADOPTION OF A MODERN, SIMPLIFIED TAX SYSTEM.

THE OUTCOMES

- ❑ RISING PER CAPITA INCOME.
- ❑ DECREASING RATE OF INFLATION.
- ❑ INCREASING FOOD SUPPLIES AND THE ATTAINMENT OF RICE SELF-SUFFICIENCY.
- ❑ A RISING SHARE OF MANUFACTURING OUTPUT IN GDP.
- ❑ SHARPLY DECLINING LEVELS OF POVERTY.

RISING PER CAPITA INCOME

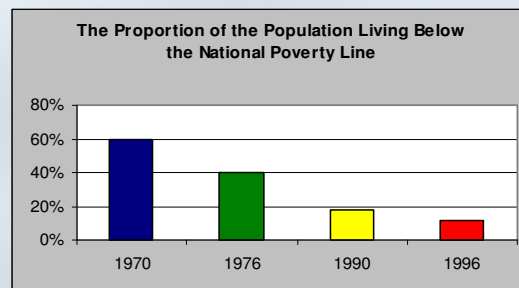
- ❑ OVER THE PERIOD 1965-95 REAL GDP PER CAPITA GREW AT AN ANNUAL AVERAGE RATE OF 6.6%.
- ❑ IN THE MID 1960'S INDONESIA WAS POORER THAN INDIA.
- ❑ BY MID 1995, INDONESIA'S GDP PER CAPITA EXCEEDED \$ 1,000, OVER 3 TIMES INDIA'S

RISING SHARE OF MANUFACTURING OUTPUT IN GDP

- ❑ THE SHARE OF THE MANUFACTURING SECTOR IN GDP ROSE FROM 7.6% IN 1973 TO NEARLY 25% IN 1995.
- ❑ THIS WAS DRIVEN BY THE RAPID GROWTH OF MANUFACTURED EXPORTS
- ❑ NON-OIL EXPORTS, WHICH WERE PREDOMINANTLY MANUFACTURED PRODUCTS, GREW BY ROUGHLY 22% PER ANNUM OVER THE DECADE FROM 1985, WHEN TRADE LIBERALIZATION WAS FIRST IMPLEMENTED, TO 1995; A RATE FOUR TIMES FASTER THAN THE GROWTH OF WORLD TRADE

SHARPLY DECLINING LEVELS OF POVERTY

The proportion of the population living below the national poverty line fell from around 60% in 1970 to 40% in 1976 to 15% in 1990 and to 11.5% in 1996



ECONOMIC GROWTH AND EQUITY

- ❑ INDONESIA'S BROAD BASED, LABOR-ORIENTED GROWTH STRATEGY, BACKED BY A STRONG RECORD IN HUMAN RESOURCE DEVELOPMENT, BROUGHT ABOUT ONE OF THE SHARPEST REDUCTIONS IN POVERTY IN THE DEVELOPING WORLD.
- ❑ AT THE SAME TIME, THIS STRATEGY RESULTED IN REAL WAGES RISING ABOUT AS FAST AS PER-CAPITA GDP AND, AMONG OTHERS, BENEFITED WOMEN BY PROVIDING THEM WITH RAPIDLY GROWING PAID EMPLOYMENT IN THE FORMAL SECTOR, THAT ALLOWED THEM TO SWITCH OUT OF UNPAID WORK IN THE RURAL SECTOR.
- ❑ SOCIAL INDICATORS, SUCH AS INFANT MORTALITY, FERTILITY AND SCHOOL ENROLLMENTS, ALSO SHOWED SIGNIFICANT IMPROVEMENT.

WORLD BANK DOCUMENT (1997)

- ❑ LIFE EXPECTANCY ROSE AND INFANT MORTALITY DECLINED DRAMATICALLY.
- ❑ EIGHT OUT OF TEN OF THE POPULATION HAD ACCEST TO HEALTH CARE AND TWO OUT OF THREE TO SAFE DRINKING WATER.

INDONESIA IN YEAR 2005

- ❑ IT WAS PREDICTED THAT BY THE YEAR **2005**, INDONESIA'S GDP WOULD HAVE REACHED **\$2,300**, AND INDONESIA WOULD HAVE BECOME **A MIDDLE INCOME INDUSTRIALIZED COUNTRY**
- ❑ BY THEN, THE INCIDENCE OF POVERTY WOULD HAVE BEEN REDUCED TO LESS THAN 5%, WHICH WOULD BE ABOUT THE SAME LEVEL AS OTHER NEWLY INDUSTRIALIZED COUNTRIES

THE ECONOMIC CRISIS

- ❑ ON 2 JULY 1997, THE CENTRAL BANK OF THAILAND WAS FORCED TO ABANDON ITS FIXED EXCHANGE RATE REGIME AND THE BAHT IMMEDIATELY DEPRECIATED BY ALMOST 20%.
- ❑ AS QUESTIONS BEGAN TO BE RAISED ABOUT THE STRUCTURAL SOUNDNESS OF THE EAST ASIAN ECONOMIES THERE WAS A SUDDEN AND DRAMATIC REVERSAL OF CAPITAL FLOWS AS INFLOWS TURNED INTO MASSIVE CAPITAL OUTFLOWS AND BANKS THAT WERE ONCE EAGER TO LEND TO NEARLY ANY ASIAN INVESTOR SUDDENLY REFUSED TO RENEW SHORT-TERM CREDIT LINES.

THE CRISIS

- DURING THE THREE MONTHS BETWEEN JULY AND SEPTEMBER 1997, THE ASIAN FINANCIAL CRISIS GATHERED FULL FORCE AND BEGAN TO AFFECT INDONESIA DESPITE CONTINUED EXPRESSIONS OF CONFIDENCE THAT THE SOUNDNESS OF ITS ECONOMIC FUNDAMENTALS AND MANAGEMENT WOULD SEE IT THROUGH WITH LITTLE DAMAGE.

THE CRISIS

- THE EXCHANGE RATE DROPS FROM 2,400 RP/\$ (JULY 1997) TO 16,000 RP/\$ (JUNE 1998).
- 1998:
 - GDP GROWTH: -13.6%
 - INFLATION: 77.6%.
- COLLAPSE OF THE BANKING SYSTEM: COST OF RESTRUCTURING THE BANKING SYSTEM: RP. 650 TRILLION (US\$65 BILLION)
- TOTAL EXTERNAL DEBT (1999):
 - \$148 BILLION, OR 104% GDP
 - HALF OF IT PRIVATE SECTOR'S
 - ± \$ 30 BILLION SHORT TERM

THE CRISIS

- ❑ NON-OIL EXPORTS GROWTH:
 - 1998: + 9,9%
 - 1999: - 7,2%
- ❑ MILLIONS OF INDIVIDUALS LOST THEIR JOBS
- ❑ CHILDREN LEFT SCHOOL
- ❑ POVERTY INCREASED

INDONESIA: PRE AND DURING CRISIS

Indicator	Pre Crisis	Crisis
Income (US\$ Billion)	218 (1996)	120 (2000)
Income/Capita (US\$)	1,110 (1996)	570 (2000)
GDP Growth (%)	6.6 (1965-1995)	-13.6 (1998)
GDP (% Manufacturing Share)	25 (1995)	-14.2 (1998)
Inflation (%)	Single digit	78 (1998)
Exchange Rate	Rp. 2,400	16,000 (1998); 10,200 (2002)
Non Oil Export (%)	9.9 (1998)	-7.2% (1999)
Total Ext. Debt	113 billion (1996)	150 billion (104% GDP, 1999)
Poverty Line	11.9% (1996)	18.2% (1999)

THE FALL OF THE NEW ORDER

- ❑ IN JULY 1997, PRIOR TO THE ECONOMIC CRISIS A GENERAL ELECTIONS WAS HELD.
- ❑ REFLECTED IN THE RESULT OF GENERAL ELECTION WITH A HUGE VICTORY OF THE GOVERNMENT'S PARTY, GOLKAR, SUHARTO STILL HELD A STRONG GRIP ON THE POLITICAL SYSTEM
- ❑ MARCH 11TH, 1998 SUHARTO WAS INDEED RE-ELECTED FOR ANOTHER FIVE-YEAR TERM BY THE MPR. HE IMMEDIATLLY FORMED A NEW CABINET WITH ECONOMIC RECOVERY AS ITS MAIN AGENDA.

- ❑ DISREGARDING THE POLITICAL CONTROVERSIES THE NEW ECONOMIC TEAM SET OUT TO GET THE ECONOMY MOVING AGAIN.
- ❑ MAJOR POLICY INITIATIVES:
 - REPAIRING THE RELATIONS WITH THE INTERNATIONAL COMMUNITY, AND
 - RESTORING MARKET CONFIDENCE
- ❑ ALL THE MAJOR CREDITOR COUNTRIES WERE READY TO GIVE SUPPORT TO INDONESIA'S EFFORTS AT RECOVERY, THROUGH OR IN COOPERATION WITH THE IMF

- ❑ THE FIRST PRIORITIES WERE DIRECTED AT BOTH THE RESTRUCTURING OF THE FINANCIAL AND BANKING SYSTEM AND RESOLVING THE CORPORATE DEBT PROBLEM
- ❑ THE GOVERNMENT ECONOMIC TEAM IMMEDIATELY RE-ESTABLISHED DIALOGUE WITH THE IMF TO WORK ON A RENEWED PROGRAM
- ❑ STRUCTURAL REFORMS WERE EMBRACED BY THE ECONOMIC TEAM AS THEIR OWN
- ❑ THE NEED TO PROTECT THE POOR FROM THE WORST OF THE CRISIS
- ❑ CLOSING INSOLVENT BANKS TO STOP THE BLEEDING OF THE FINANCIAL SYSTEM

- ❑ STRENGTHENED THE EFFORTS TO DEAL WITH CORPORATE DEBT PROBLEM WHICH HAD ACTUALLY BEGAN IN 1997
- ❑ RESULT: ALTHOUGH INFLATION WAS STILL HIGH, THE RUPIAH EXCHANGE RATE WAS STRENGTHENED FROM 10,000 AT THE START OF THE NEW CABINET TO 7,500 BY MID APRIL AND REMAINED BELOW 8,000 UNTIL MAY 1998 WHEN POLITICAL TROUBLES OCCURRED THAT TRIGGERED A SPIRALLING DOWNFALL OF THE NEW ORDER GOVERNMENT

- ❑ WHILE THE ECONOMY SHOWED SOME IMPROVEMENT, IN THE POLITICAL FRONT, THE SITUATION DETERIORATED
- ❑ SUHARTO HAD SHOWN NO INTENTION TO UNDERTAKE REFORMS AS THE POLITICAL AND ECONOMIC SITUATION DEMANDED
- ❑ THE TIME HAD COME FOR POLITICAL REFORMS, BUT CHANGING THE LEADERSHIP AT THE TIME OF CRISIS WAS NOT REGARDED AS A GOOD IDEA
- ❑ AN OPPORTUNITY FOR A RENEWED START TO REBUILD THE CONFIDENCE OF THE PEOPLE AND ENGAGED IN CONCERTED EFFORTS TO REGAIN CONTROL OF THE ECONOMY WAS WASTED

- ❑ HOWEVER, THE ELITES AND LEADERS OF THE VARIOUS REFORM MOVEMENTS WERE STILL WARY OF SUHARTO'S POWER
- ❑ THE HIKE IN FUEL PRICES CHANGED EVERYTHING
- ❑ THE CULMINATION OF POLITICAL CONFRONTATION WAS REACHED WHEN IN EARLY MAY 1998 THE GOVERNMENT ANNOUNCED A RISE IN FUEL PRICES, WITH THE ACCOMPANYING CONSEQUENCES OF A RISE IN PUBLIC TRANSPORTATION FARES

- ❑ DURING THE CONFRONTATION BETWEEN THE SECURITY APPARATUS AND THE STUDENT ON MAY 12, FOUR STUDENTS WERE SHOT TO DEAD (TRISAKTI INCIDENT)
- ❑ THE FLASH POINT WAS REACHED ON MAY 14TH 1998, IN WHAT WAS THEN KNOWN AS THE *MAY RIOTS*.
- ❑ THE MAY 1998 RIOT HAD A PARTICULAR SIGNIFICANCE ASIDE FROM THE INTENSITY OF THE VIOLENCE
- ❑ THE RIOTS HAD DEVASTATING EFFECTS ON THE SUHARTO GOVERNMENT
- ❑ IT SET THE STAGE FOR THE ENDGAME OF THE POLITICAL DRAMA

THE FINAL CURTAIN

- ❑ MAY 17TH 1998 THE STUDENTS HAD PRACTICALLY OCCUPIED THE PARLIAMENT BUILDING TO PRESSURE PARLIAMENT TO ACT
- ❑ THE CALL FOR REFORM AND FOR THE RESIGNATION OF THE PRESIDENT GREW LOUDER AND WAS JOINED BY A WIDER CIRCLE
- ❑ MAY 18TH 1998 THE LEADERSHIP OF THE PARLIAMENT ANNOUNCED THEIR COLLECTIVE OPINION THAT SUHARTO HAD TO RESIGN

- ❑ SOME MINISTERS REALIZED THAT THE STATUS QUO COULD NOT BE MAINTAINED ANY LONGER
- ❑ MAY 20TH 1998 THE ECONOMIC MINISTRIES MET:
 - TO REVIEW THE ECONOMIC SITUATION AND THE POLITICAL COMPLICATIONS, AND DECIDED THAT
 - THE PRESIDENT SHOULD BE MADE AWARE OF THE GRAVE SITUATION
 - IF A POLITICAL SOLUTION COULD NOT BE REACHED WITHIN A WEEK THE ECONOMY WOULD COLLAPSE
 - FORMING A NEW CABINET WOULD NOT SOLVE THE PROBLEM
 - THEY WOULD UNANIMOUSLY DECLINE TO JOIN IN THE NEW (REFORM) CABINET.

- ❑ LOSING THE SUPPORT OF THE MILITARY, THE CABINET, AND THE PARLIAMENT ON MAY 21ST 1998 PRESIDENT SUHARTO RESIGNED HIS PRESIDENCY
- ❑ VICE PRESIDENT BJ HABIBIE ASSUMED THE PRESIDENCY
- ❑ THUS ENDED THE ERA OF THE NEW ORDER.

EXPLAINING THE DEMISE

- ❑ THE WAY THE SYSTEM WORKED DURING THE NEW ORDER OBVIOUSLY DID NOT MEET THE BASIC PRINCIPLES REQUIRED IN A DEMOCRACY IN TERMS OF POLITICAL PARTIES, ELECTIONS AND REPRESENTATION AS ARGUED BY MOST SCHOLARLY LITERATURE.
- ❑ THE NEW ORDER WOULD FAIL TO MEET DAHL'S OTHER CONDITIONS FOR A DEMOCRACY, SUCH AS FREEDOM OF SPEECH, ALTERNATIVE SOURCE OF INFORMATION AND ASSOCIATIONAL AUTONOMY.

- ❑ WHILE ECONOMICALLY THE GOVERNMENT WAS COMMITTED TO AND INTENTLY PURSUING OPEN POLICIES, POLITICALLY THE GOVERNMENT KEPT A TIGHT A GRIP.

- ❑ HUNTINGTON (1991: 54-55) MAKES THE POINT THAT THE LEGITIMACY OF AN AUTHORITARIAN REGIME MIGHT BE UNDERMINED EVEN IF IT DOES DELIVER ON ITS PROMISES.
- ❑ “BY ACHIEVING ITS PURPOSE, IT LOST ITS PURPOSE. THIS REDUCED THE REASONS WHY THE PUBLIC SHOULD SUPPORT THE REGIME, GIVEN OTHER COSTS (E.G. LACK OF FREEDOM) CONNECTED WITH THE REGIME”(1991: 55).
- ❑ HE POSITS THAT ECONOMIC DEVELOPMENT PROVIDED THE BASIS FOR DEMOCRACY.

- ❑ HE CITES THE FAMOUS—ALBEIT MUCH CONTESTED--LIPSET HYPOTHESIS CONCERNING THE RELATIONSHIP OF WEALTH AND DEMOCRACY: THE WEALTHY COUNTRIES ARE DEMOCRATIC AND THE MOST DEMOCRATIC COUNTRIES ARE WEALTHY.
- ❑ HE ARGUES THAT: “IN POOR COUNTRIES DEMOCRATIZATION IS UNLIKELY; IN RICH COUNTRIES IT HAS ALREADY OCCURRED.”
- ❑ IN BETWEEN THERE IS A POLITICAL TRANSITION ZONE; COUNTRIES IN THAT PARTICULAR ECONOMIC STRATUM ARE MOST LIKELY TO TRANSIT TO DEMOCRACY AND MOST COUNTRIES THAT TRANSIT TO DEMOCRACY WILL BE IN THAT STRATUM.” (1991: 60).

- ❑ HE MAINTAINS THAT A SOCIAL SCIENTIST WHO WISHED TO PREDICT FUTURE DEMOCRATIZATION “WOULD HAVE DONE REASONABLY WELL IF HE SIMPLY FINGERED THE NON-DEMOCRATIC COUNTRIES IN THE \$1,000-\$3,000 (GNP PER CAPITA) TRANSITION ZONE” (1991: 63).
- ❑ FURTHER STUDIES, IN PARTICULAR AN EXTENSIVE QUANTITATIVE RESEARCH AND ANALYSIS DONE BY PRZEWORSKY ET.AL. (2000: 92) HAS LENT SUPPORT TO HUNTINGTON’S THRESHOLD ARGUMENT.

- ❑ IN 1996, THE YEAR BEFORE THE ECONOMIC CRISIS SWEEPED INDONESIA, ITS GNP PER CAPITA HAD REACHED \$1,155.
- ❑ ACCORDING TO HUNTINGTON’S THEORY, AT THAT STAGE INDONESIA HAD ENTERED THE TRANSITION ZONE, WHICH MEANT THAT IT WAS SENSITIVE TO PRESSURE FOR POLITICAL CHANGE.

- ❑ THREE DECADES OF DEVELOPMENT HAD SIGNIFICANTLY INCREASED THE LEVEL AND REACH OF EDUCATION ACROSS THE NATION AND SOCIAL CLASSES.
- ❑ WITH EDUCATION CAME ENLIGHTENMENT AND EMANCIPATION FROM CULTURAL RESTRICTION, FREEING PEOPLE FROM THE SHACKLES OF OLD INHIBITIONS AND TRADITIONS.
- ❑ WITH EDUCATION PEOPLE RECOGNIZED THAT THERE WERE MORE NEEDS THAN JUST PRIMARY NEEDS OF FOOD, CLOTHING AND SHELTER.

- ❑ THOUSANDS OF INDONESIANS WHO STUDIED AT FOREIGN UNIVERSITIES, MOST OF THEM IN WESTERN COUNTRIES, LEARNED FIRST HAND THE SOCIO-CULTURAL VALUES THAT HAS BEEN THE DRIVING FORCE BEHIND THE SCIENTIFIC AND TECHNOLOGICAL ADVANCES THAT RESULTED IN THE AFFLUENCE OF THE WESTERN SOCIETIES.
- ❑ THEY RETURNED HOME IMBUED WITH THE SPIRIT OF FREEDOM, WHICH WAS A POTENT SOURCE OF INSPIRATION AND MOTIVATION TO CHANGE.

- ❑ THE SUPPOSED ULTIMATE VICTORY OF DEMOCRACY AGAINST ALL OTHER SYSTEMS OF GOVERNMENT (SEE FUKUYAMA, 1992) HAS CHANGED THE PEOPLE'S POLITICAL ATTITUDES, OR AT LEAST THE ELITE'S PERCEPTION, OF LIBERAL DEMOCRACY AS AN EVIL SYSTEM.
- ❑ INTERNATIONAL COMMERCE BROUGHT ABOUT THE OPENING UP NOT OF ONLY THE INDONESIAN MARKET TO FOREIGN GOODS BUT ALSO THE INDONESIAN SOCIETY TO FOREIGN IDEAS.
- ❑ WITH GLOBALIZATION CAME NOT ONLY THE INTEGRATION OF MARKETS BUT ALSO THE INTRODUCTION AND EVENTUAL INTEGRATION OF IDEAS.

- ❑ THE BREAKDOWN OF BARRIERS TO COMMUNICATION, THE MAIN FORCE BEHIND GLOBALIZATION AND THE DRIVE TOWARD A HIGHER DEGREE OF CIVILIZATION, SWEEPED INDONESIA WITH READILY AVAILABLE AND UP TO DATE INFORMATION.
- ❑ IT FREED THE INDIVIDUALS FROM THE CONSTRAINTS OF TIME AND SPACE.
- ❑ CENSORSHIP WAS NO LONGER RELEVANT, BECAUSE ONE COULD ACCESS INFORMATION THROUGH THE INTERNET, CNN OR CABLE TV, OR JUST TRAVEL.
- ❑ THE DIFFUSION OF DEMOCRATIC IDEALS BY THE END OF THE 20TH CENTURY WAS UNSTOPPABLE.
- ❑ THE INFORMATION BERLIN WALL WAS CRUMBLING DOWN.

- ❑ WHEN THE GOVERNMENT CLOSED DOWN THE POPULAR INDONESIA MAGAZINE, *TEMPO*, BECAUSE OF IT CRITICAL TONE, IT SIMPLY RESURFACED AS AN INTERNET WEBSITE.
- ❑ PEOPLE CLOSELY FOLLOWED THE FALL OF NON-DEMOCRATIC SYSTEMS OF GOVERNMENT IN THE FORMER COMMUNIST COUNTRIES AND IN A COUNTRIES SUCH AS THE PHILIPPINES AND KOREA.

STUDENTS ACTIVISM

- ❑ AMONG THE SOCIAL FORCES THAT WERE POISED AGAINST THE NEW ORDER, THE MOST CONSISTENT AND MILITANT WERE THE STUDENTS.
- ❑ IN THE HISTORY OF THE NATION, EVEN BEFORE INDEPENDENCE, THE INDONESIAN YOUTH AND STUDENTS PLAYED PIVOTAL ROLE.
- ❑ THEY PARTICIPATED IN EVERY IMPORTANT EVENT IN THE NATION COURSE OF HISTORY. THERE IS NO MAJOR POLITICAL CHANGE IN INDONESIA THAT HAS NOT INVOLVED THE YOUTH AND STUDENTS.

- ❑ STUDENT ACTIVISM WAS VERY MUCH ACTIVE IN 1970s, AND CONTINUED INTO THE 1980s AND 1990s; TAKING UP NATIONAL ISSUES LIKE CORRUPTION, HUMAN RIGHTS AND DEMOCRACY, AND LOCAL ISSUES, SUCH AS EVICTION OF PEOPLE FROM AREAS DESIGNATED FOR DEVELOPMENT PROJECTS, AND ENVIRONMENTAL AND LABOR ISSUES RELATED TO THEIR AREA.

- ❑ ALTHOUGH THE STUDENT MOVEMENTS MOST OF THE TIME WERE WIDELY SCATTERED, UNFOCUSED AND UN-COORDINATED AND WERE ISOLATED FROM BROAD POPULAR SUPPORT, THEY WERE SUCCESSFUL IN GALVANIZING THE SILENT MAJORITY TO BE CONCERNED ABOUT CURRENT POLITICAL ISSUES CONFRONTING THE NATION.
- ❑ UHLIN NOTES THAT THE STUDENT ACTIVISM OF THE LATE 1980S AND EARLY 1990S HAS CONTRIBUTED TO A RADICALIZATION OF THE DEMOCRATIC OPPOSITION IN INDONESIA.

RISE OF THE MIDDLE CLASS

- ❑ ECONOMIC DEVELOPMENT GAVE BIRTH TO THE MIDDLE CLASS. URBAN MIDDLE CLASS IS A PRODUCT OF WIDER AND HIGHER EDUCATION AND ECONOMIC GROWTH. IN AGRARIAN INDONESIA THE NASCENT MIDDLE CLASS HAD GROWN IN NUMBER AND INFLUENCE WITH THE ADVANCE OF INDUSTRIALIZATION AND URBANIZATION.

- ❑ AT THAT STAGE THE INDONESIAN MIDDLE CLASS POLITICAL ATTITUDE WAS NOT NECESSARILY ANTIGOVERNMENT; IN FACT UNTIL THE END OF THE 1980S THE MAJORITY OF THE MIDDLE CLASS WHO OWED THEIR ECONOMIC ADVANCEMENT TO THE GOVERNMENT'S DEVELOPMENT EFFORTS BELIEVED IN THE GOVERNMENT'S DEVELOPMENT CREED AND STRONGLY FAVORED POLITICAL STABILITY.

- ❑ AS UHLIN (1997) OBSERVES, AT THAT STAGE THE INDONESIAN MIDDLE CLASS WERE STILL HIGHLY DEPENDENT ON STATE POWER AND LACKED THE AUTONOMY THAT HAD ENABLED THE BUSINESS CLASS IN OTHER COUNTRIES TO PUSH THROUGH DEMANDS FOR THE RULE OF LAW AND SOME DEMOCRATIC RIGHTS.

- ❑ IN COUNTRY AFTER COUNTRY THE RISING URBAN MIDDLE CLASS HAD BEEN THE FORCE OF MODERNIZATION AND DEMOCRATIZATION. IN THE PHILIPPINES, KOREA, THAILAND THEY HAD PLAYED CRUCIAL ROLE BEHIND THE TRANSITION TO DEMOCRACY.

- ❑ HAGGARD AND KAUFMAN (1995) MAINTAIN THAT IN SOUTHERN EUROPE, THE EAST ASIAN NEWLY INDUSTRIALIZING COUNTRIES, AND EASTERN EUROPE, ECONOMIC DEVELOPMENT RESULTED IN THE EMERGENCE OF MORE COMPLEX, LITERATE MIDDLE CLASS SOCIETIES THAT DEMANDED INCREASED POLITICAL PARTICIPATION.

- ❑ WHEN THIS RESOURCEFUL BUT RATIONAL PART OF SOCIETY JOINED FORCES WITH THE DYNAMIC PART OF SOCIETY SUCH AS THE STUDENTS OR URBAN WORKERS, THE COMBINATION COULD BE EXPLOSIVE.
- ❑ INDUSTRIALIZATION, URBANIZATION, AND THE RISE OF THE MIDDLE CLASS HAD THUS SPELLED THE DIFFUSION OF POWER, AND THE EDUCATED MIDDLE CLASS TENDED TO BECOME INCREASINGLY VOCAL IN DEFENSE OF ITS INTERESTS.

- ❑ BY THE MID-1990s THE INDONESIAN MIDDLE CLASS HAD REACHED THE "CRITICAL MASS" IN NUMBER AS WELL AS IN RESOURCES TO PLAY A SIGNIFICANT ROLE AT POLITICAL CHANGE.
- ❑ AND THEY HAD INCREASINGLY BECOME CRITICAL OF THE GOVERNMENT; THEIR WRITINGS, PLAYS AND DISCOURSES HAD PROVIDED FOR INTELLECTUAL INSPIRATION TOWARDS DEMOCRATIZATION. MANY OF THEM FORMED NGO'S THAT WERE ACTIVELY PROMOTING AGENDA OF REFORMS.

CIVIL SOCIETY

- ❑ CIVIL SOCIETY IN INDONESIA HAS HAD ONLY RECENT HISTORY, SO THEIR INFLUENCE ON THE COUNTRY'S IMPORTANT POLITICAL EVENTS IS STILL MINIMAL, BUT WITH THE WEAKENING OF THE NEW ORDER GOVERNMENT IN THE WAKE OF ECONOMIC CRISIS, AND THE ONGOING PROCESS OF POLITICAL REFORMS AND DEMOCRATIZATION THAT IS GAINING MOMENTUM IN THE COUNTRY, THE ROLE OF THE NGO IS GROWING.

INEQUALITY

- WHILE, AS MENTIONED ABOVE INDONESIA'S DEVELOPMENT HAD A WIDESPREAD EFFECT ON THE POPULATION IN GENERAL AS INDICATED BY DECLINING POVERTY INCIDENCES AND VARIOUS SOCIAL INDICATORS, THERE WAS GROWING AWARENESS OF THE WIDENING GAP BETWEEN INCOME GROUPS, BETWEEN REGIONS, AND BETWEEN ETHNICS.

- AT THE HEIGHT OF THE PRAISE FOR THE NEW ORDER ACHIEVEMENT, MANY INDONESIAN SCHOLARS AND CRITICS NOTED THE LACK OF DISTRIBUTIVE JUSTICE AS ONE OF THE MAJOR CRITICISM OF THE NEW ORDER.
- THEY ARGUED THAT THE INDONESIAN ECONOMIC SUCCESS HAD BENEFITED THE URBAN AND INDUSTRIAL SECTOR WHILE (RELATIVELY) MARGINALIZING THE RURAL AND TRADITIONAL SECTORS.

- ❑ IT IS POSSIBLE AN INCREASE IN THE POLARIZATION OF THE INCOME DISTRIBUTION OCCURRED IN INDONESIA AS THE ECONOMY GREW AND THAT THIS CONTRIBUTED TO THE PERSISTENT FEELING IN INDONESIA THAT THE MANY ECONOMIC REFORMS LED NOT TO AN IMPROVEMENT IN GENERAL WELFARE, BUT ONLY AN IMPROVEMENT IN THE WELFARE OF THE RICH.

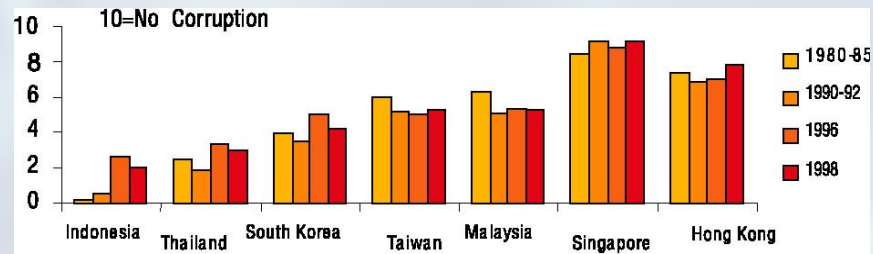
CORRUPTION

- ❑ DESPITE THE LIBERALIZATION MEASURES UNDERTAKEN IN RESPONSE TO THE WAVE OF GLOBALIZATION IN THE MID-1980S, CONTROL OF THE ECONOMY CONTINUED TO BE DIRECT, THROUGH MONOPOLIES IN KEY INDUSTRIES (ENERGY, PAPER, STEEL, COMMODITIES, TRANSPORT AND COMMUNICATIONS), OR THROUGH THE CREDIT-ALLOCATION POWERS OF FINANCIAL AGENCIES THAT WERE CONTROLLED BY OR PREJUDICED IN FAVOR OF PRIVILEGED AND POLITICALLY CONNECTED BUSINESS GROUPS.

- ❑ PRIVATIZATION IN THE 1980s OFTEN MEANT THE TRANSFER OF INDUSTRIES FROM DIRECT STATE MONOPOLY TO HANDS THAT WERE ONLY NOMINALLY PRIVATE BUT REALLY HIGHLY DIVERSIFIED CONGLOMERATES WHO ENJOYED PROTECTION FROM OPEN COMPETITION AND GUARANTEED ACCESS TO STATE FUNDS AND FACILITIES.

- ❑ MEANWHILE THE PRESIDENT'S FAMILY AND THE ECONOMIC CRONIES ALIGNED THEMSELVES TO PURSUE POORLY CONCEIVED ECONOMIC PROGRAMS.
- ❑ CORRUPTION HAD BECOME AN ISSUE AND HAD TAINTED THE GOVERNMENT'S CREDIBILITY.

CORRUPTION IN INDONESIA IN THE PERIOD 1980-98



Source: Transparency international, (taken from haggard, 2000).

REGIONAL DISPARITY

- CENTRALIZED POWER AND UNEVEN DISTRIBUTION OF WEALTH CREATED DISSATISFACTION AMONG PEOPLE IN THE OUTLYING REGIONS. WITH ECONOMIC GROWTH AND INDUSTRIALIZATION, JAVA AND SOME PROVINCES PROGRESSED FASTER THAN THE REST OF THE REGIONS, ESPECIALLY THE EASTERN PART THE COUNTRY.

- ❑ THESE PROVINCES, RICH IN NATURAL RESOURCES, WERE RESENTFUL OF THE RETURNS THAT THEY RECEIVED FROM THEIR REGIONS' CONTRIBUTION TO THE NATIONAL ECONOMY. THE WIDENING DISPARITY BETWEEN REGIONS WAS ANOTHER SOURCE OF CRITICISM AGAINST THE NEW ORDER.
- ❑ TO A SIGNIFICANT EXTENT THIS PROBLEM STILL PERSISTS TODAY, AND IS ONE FACTOR DRIVING THE SOVEREIGNTY CONFLICTS IN ACEH AND PAPUA.

ROLE OF THE MILITARY

- ❑ EVEN WITHIN THE MILITARY THERE WAS A GROWING UNEASINESS WITH THE UNFOLDING EVENTS. WHILE ACTIVE MILITARY OFFICERS TRUE TO THEIR SOLDIERS' OATH REMAINED LOYAL TO THE PRESIDENT, THERE WAS GROWING OPPOSITION AMONG THE RETIRED MILITARY OFFICERS.

- ❑ SHIRAIISHI (1999: 78) ARGUES THAT ALTHOUGH THE MILITARY REMAINED LOYAL TO THE PRESIDENT TO THE LAST MINUTE, "THE STRUGGLE WITHIN THE UPPER ECHELONS OF THE MILITARY HAD A POWERFUL INFLUENCE ON THE POLITICAL PROCESS AND ON EVENTS IN THE COUNTRY MORE GENERALLY." NO LONGER COULD THE MILITARY BE COUNTED TO BE IN THE POSITION TO DEFEND THE REGIME AT ANY COST.

POLITICAL ISLAM

- ❑ THE EMERGING ROLE OF ISLAM AS A FORCE OF CHANGE SHOULD ALSO NOT BE UNDERESTIMATED.
- ❑ UHLIN (1997:82) AGUES THAT MANY INDONESIAIAN PRO-DEMOCRACY ACTIVISTS ARE MORE THAN NOMINALLY MUSLIM AND THEY OFTEN USE ISLAMIC DISCOURSES TO MOTIVATE THE STRUGGLE FOR DEMOCRACY.

LEADERSHIP CRISIS

- IN ADDITION TO HIGH LEVELS OF CORRUPTION, WHEN THE CRISIS HIT, THE LEADERSHIP HAD A LIMITED RESERVOIR OF POPULAR SUPPORT TO CALL UPON. TWO FACTORS ARE NOTABLE INDONESIA HAD, BY FAR, THE LONGEST-SERVING LEADER OF ANY OF THE COUNTRIES IMPACTED BY THE ASIAN FINANCIAL CRISIS, AS WELL AS THE MOST CENTRALIZED DECISION-MAKING PROCESS.

- WHILE THE OTHER COUNTRIES IMPACTED BY THE CRISIS—THAILAND, SOUTH KOREA, AND MALAYSIA—HAD DEVELOPED AT LEAST PARTIALLY INCLUSIVE REPRESENTATIVE INSTITUTIONS DURING THE 1980S AND 1990S, THE INDONESIAN STATE CONTINUED DOWN AN AUTHORITARIAN PATH, WITH REAL POWER CONTINUING TO BE CONCENTRATED IN THE PRESIDENT AND HIS FAMILY AND SELECTED CRONIES.

(WORLD BANK, 2006)

- ❑ WHILE IN BETTER TIMES THE REGIME HAD THE POWER TO CREATE AND ENFORCE MANY POLICIES ALMOST SINGLE-HANDEDLY, WHEN COLLECTIVE NATIONAL SACRIFICE WAS NECESSARY THERE WERE FEW RESERVOIRS OF GOODWILL TO CALL UPON FROM A DISENFRANCHISED CITIZENRY.

- ❑ THE CRACKS IN THE RANKS OF THE NEW ORDER HAD COME TO THE SURFACE, AS THE NEW ORDER SUPPORTERS WITHIN AND OUTSIDE THE GOVERNMENT, INCLUDING THOSE IN THE MILITARY AND THE CABINET HAD GROWN ALIENATED BY THE WAY PRESIDENT SOEHARTO HANDLED THE CRISIS, AND BY HIS INABILITY TO RECOGNIZE THE WEAKNESSES IN THE GOVERNMENT'S POLICIES AND INSTITUTIONS AND THE URGENT NEED TO EMBARK ON REFORMS.

THE CATALYST

- ❑ MANY OF THE OPPOSING FORCES IDENTIFIED ABOVE WERE LONG PRESENT, ALBEIT LATENT IN THE UNDERCURRENT OF INDONESIAN POLITICS FOR YEARS.
- ❑ BY THEMSELVES HOWEVER, THEY DID NOT PRESENT A SUFFICIENT CHALLENGE CAPABLE OF ENDING SUHARTO'S RULE.
- ❑ THE NEW ORDER'S CENTRALIZED POWER STRUCTURE AND CAREFUL CONTROL OF POLITICAL COMPETITION WOULD HAVE ENSURED THE SECURITY OF THE PRESIDENT POSITION.

- ❑ EMPIRICAL OBSERVATIONS LED HUNTINGTON (1991) TO BELIEVE THAT CRISES PRODUCED BY EITHER RAPID GROWTH OR ECONOMIC RECESSION WEAKENED AUTHORITARIANISM.
- ❑ WITH ALL THE CHANGING SOCIAL STRUCTURES AND NORMS, AND THE FORCES ARRAYED AGAINST THE NEW ORDER, FROM OUTSIDE AND WITHIN ITS OWN RANK, IT WAS ONLY A MATTER OF TIME BEFORE HUNTINGTON'S PREDICTION WOULD BE REALIZED.
- ❑ IT WOULD, HOWEVER, STILL NEED A CATALYST TO QUICKEN THE PACE OF CHANGE.
- ❑ THE ECONOMIC CRISIS WAS THE TRIGGER THAT WOULD SET THE CHAIN OF EVENTS THAT EVENTUALLY LEAD TO THE POLITICAL CHANGE.

- ❑ AND THE MUCH TOUTED AND INTERNATIONALLY PRAISED NEW ORDER DID FINALLY FALL.
- ❑ MANY OBSERVERS AGREE THAT FOR PRESIDENT SUHARTO, WHO RESTED HIS CLAIM TO RULE ON HIS ABILITY TO DELIVER ECONOMIC GROWTH, THE ECONOMIC CRISIS DEEPLY UNDERMINED HIS LEGITIMACY AND LEFT HIM AFTER SO MANY YEARS IN POWER, AT LAST, VULNERABLE TO CREDIBLE CHALLENGE FOR POWER.

CONCLUSION

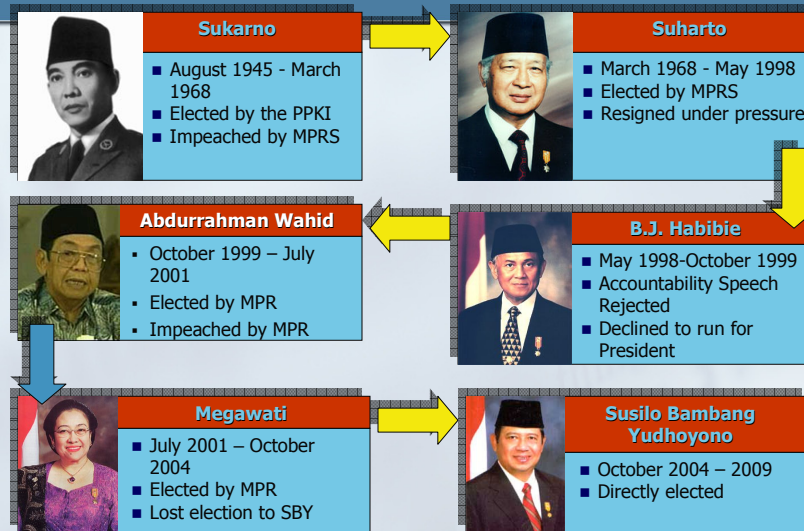
- ❑ IN CONCLUSION, THE EXCEPTIONAL SEVERITY OF THE INDONESIAN CRISIS WAS A REFLECTION OF THE CONFLUENCE OF ECONOMIC AND POLITICAL CRISES, AND IT SERVES TO ILLUSTRATE WELL HOW ECONOMIC AND POLITICAL FORCES CAN REINFORCE EACH OTHER IN TIME OF CRISIS.

- INDONESIA IS EMERGING FROM LONG PERIOD OF AUTHORITARIAN RULE TO CONSOLIDATE ITS STATUS AS THE THIRD LARGEST DEMOCRATIC COUNTRY IN THE WORLD.



REINVENTING INDONESIA

Regime Change in Indonesia

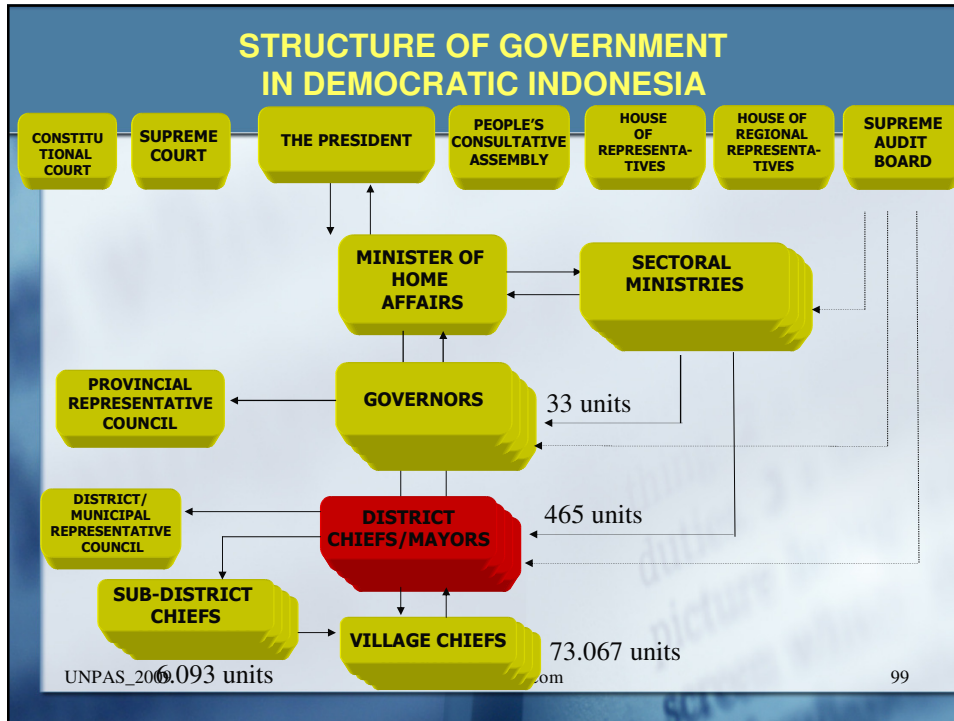


CONSTITUTIONAL REFORM

- ❑ ALTHOUGH INDONESIA HAS NOT BEEN ON "THE ROAD TO DEMOCRACY," FOR LONG, THERE IS MUCH THAT HAS BEEN ACHIEVED.
- ❑ THE DEMOCRATIZATION PROCESS IN INDONESIA, ALTHOUGH TRIGGERED BY THE 1997/1998 ECONOMIC CRISIS, HAS BEEN UNDERTAKEN RELATIVELY PEACEFULLY IN CONJUNCTION WITH THE REFORM OF THE CONSTITUTION.

- ❑ AMONG THE AMENDMENTS TO THE CONSTITUTION SEVERAL STAND OUT AS MOST SIGNIFICANT SUCH AS IMPROVEMENT OF CHECKS AND BALANCES SYSTEM, DIRECT PRESIDENTIAL AND REGIONAL EXECUTIVES ELECTIONS, LEGAL REFORM AND DECENTRALIZATION, HUMAN RIGHTS, FREEDOM OF THE PRESS, BIGGER ROLE OF CIVIL SOCIETY.

- ❑ THE CONSTITUTIONAL AMENDMENT PROCESS HAVING BEEN COMPLETED, CITIZENS MAY OBSERVE A "SOFTWARE UPGRADE" IN THE DIFFICULT SYSTEM THAT IS THEIR GOVERNMENT.



WHAT A DIFFERENCE A DECADE MAKES

Issue	1998	2008
Presidential selection	Selected indirectly by the People's Consultative Assembly (MPR) every five years	Directly elected through universal suffrage every five years
National parliament	Unicameral legislature 500 members, with 20 percent of seats reserved for the military (reduced to 15 percent in 1995). Dominated by Golkar.	<ul style="list-style-type: none"> Bicameral legislature (DPR and DPD). DPR members (550) elected directly in multi-member constituencies through proportional representation. Each province elects four members to the national DPD, for total of 128 members.
Political parties	Only three parties legally allowed to contest elections—Golkar, the United Development Party (PPP), Indonesian Democratic Party (PDI).	24 parties competed in the 2004 general election, and five parties put up serious parties for the presidency.
Presidential-legislative relations	De facto, a rubber stamp body for the president's policy decisions.	<ul style="list-style-type: none"> The president's party (the Democrat Party, PD) holds only 56 of 550 seats in DPR. DPR is now a serious check on presidential authority.

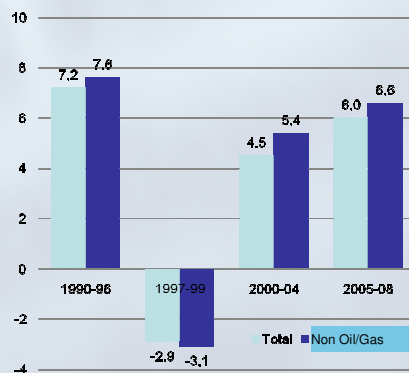
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WHAT A DIFFERENCE A DECADE MAKES

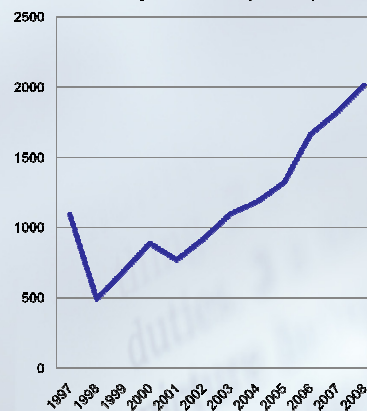
Issue	1998	2008
Role of military	<ul style="list-style-type: none"> Reserved seats at all three levels of parliament. About 6,000 military staff seconded to government positions (as of 1995). Territorial command system enables military self-financing. 	No reserved seats in parliament
Provincial and district executives	Appointed by Ministry of Home Affairs (under tight supervision of the president).	Directly elected.
Provincial and district legislatures	Only three parties legally allowed to contest elections. 15 percent of seats reserved for the military. Dominated by Golkar.	Directly elected in multi-member constituencies in a proportional representation system.
Civil society	Tight restrictions on the press and NGOs.	Free press and proliferation of NGOs.

Economic Growth Acceleration

Economic Growth Acceleration after Economic Crisis

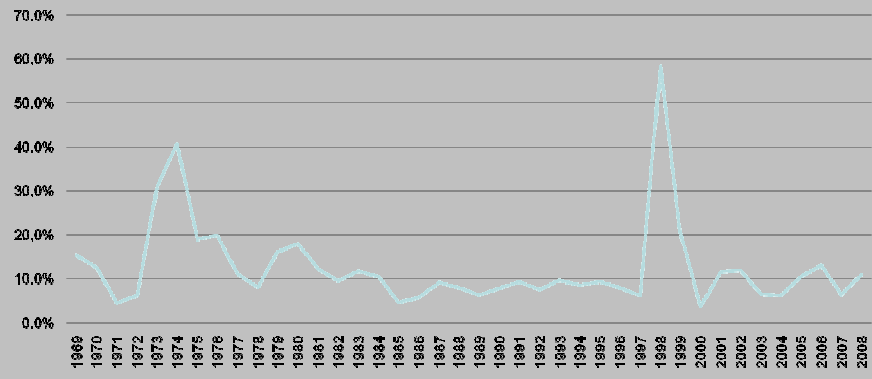


Percapita GDP (USD)



Inflation go back to a long term level

Figure: Long term Inflation Rate, 1969-2008



- Inflation 2008 → 11,06% below June 2008 yearly estimation which is 12,9 %
- To compete in global market Indonesia should push inflation under 3-5% annually
- Eliminates structural rigidity

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Indonesia Performance compared to Other Asian Countries

Economic progress of some Asian countries after economic crisis 1997/98 (in % & for foreign debt is percentage of GDP)

	Economic Growth			Inflation		Foreign Debt		Unemployment	
	1998-04	2005-07	2008	1998	2008	2002	2008	2000	2008
Indonesia	1,5	5,8	6,2	58,4	11,0	64,9	30,7	8,3	8,3
Thailand	5,0	5,0	4,5	8,1	3,0	48,8	29,9	2,4	1,4
Malaysia	5,6	6,0	5,7	5,2	4,3	48,4	31,3	3,5	3,3
Filipina	5,9	4,8	2,7	9,3	4,5	69,8	45,4	11,2	7,3
South Korea	6,1	5,0	4,1	7,7	3,0	25,8	39,4	4,4	3,5

Source: IMF, International Financial Statistics

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After crisis 1998, financial sector is healthier.....

COUNTRY	NON PERFORMING LOAN		RISK WEIGHTED CAR		ROA	
	1997-1999	2007-2008	1997-1999	2007-2008	1997-1999	2007-2008
China	-	0,7	12,8	7,7	0,1	1,0
Hongkong	7,2	0,8	18,7	14,3	0,4	2,0
India	14,7	2,8	11,2	12,6	0,5	1,0
South Korea	8,3	0,8	10,8	12,0	-1,3	0,9
Malaysia	16,6	6,6	12,5	13,2	0,7	1,5
Philippina	14,6	5,8	17,5	15,9	0,4	1,4
Singapore	5,3	1,8	20,6	14,0	1,2	1,4
Thailand	38,6	7,9	12,4	14,8	-5,7	0,1
Indonesia	32,9	3,9	-6,7	20,5	-8,7	2,7
Japan	5,8	5,8	11,9	12,3	-0,9	0,3
USA	1,0	1,7	12,2	12,8	1,3	0,6

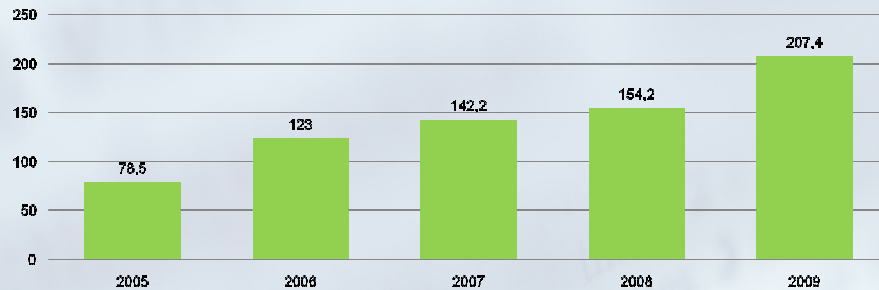
Source: Global Stability Report, 2008 and 2004



Coping with Medium Term Economic Challenges

Challenge 1: Improve the quality of human resource

Trend of Education Expenditure (In-service-education for Government Civil Servant is excluded) 2005-2009 (Rp Trillion)



- MDGs: Goals for education sector have been accomplished and already on the right track for 2015.
- Challenge: how to utilize bigger amount of budget to promote human resource quality.

Challenge 2: Infrastructure gap

Some infrastructure indicators, 2005

	Indonesia	SE Asia	OECD
Water and Sanitation			
- Improved Sanitation Facilities (% of pop with access)	55,0	50,6	100,0
- Improved water source (% pop with access)	77,0	78,5	99,5
Energy and Transport			
- Electric Power Consumption (kwh per capita)	478,2	1343,5	9693,5
- Electric Distribution and Losses (% of output)	13,4	7,0	6,2
- Road, paved (% of total road)	57,1	na	100,0
Information and Communication Technologies			
- Fixed and Mobile phone subscribers (per 1000 people)	270,6	496,5	1324,5
- International internet bandwidth (bits per person)	6,9	97,1	4731,5
- Internet users (per 1000 people)	72,5	88,7	525,4
- Personal computers (per 1000 people)	13,9	38,2	585,2

Source: World Development Indicator

Challenge 3: Integration with Global Economy

Indonesia Export Ratio is low,so do FDI

Export of Indonesia and other Asian Countries to the rest of the world

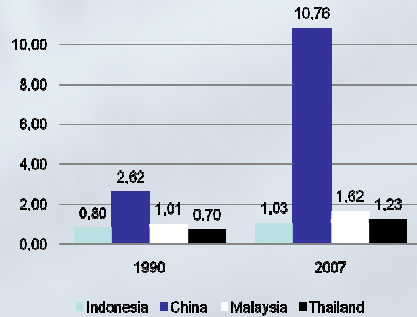
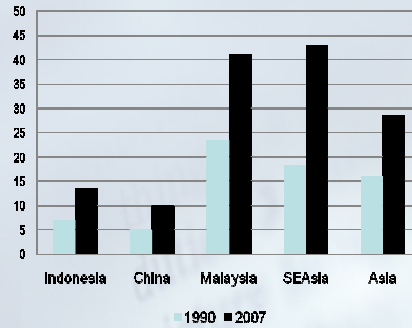


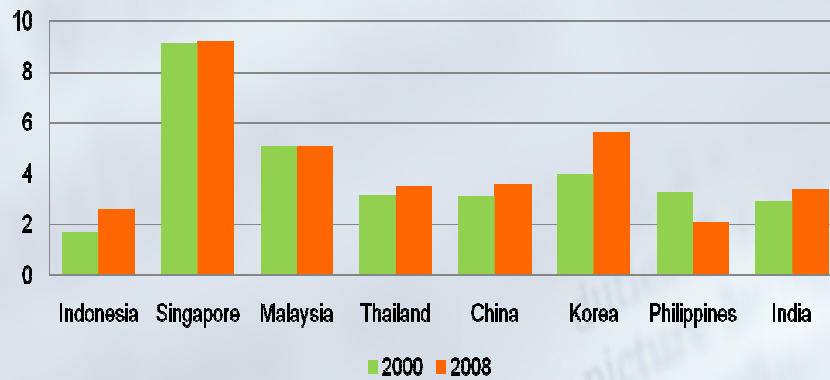
Figure 2 : FDI Stock as percentage to GDP, 1990-2007



Institutional reform such as Inpres 5/2008, together with other programs such as improvement in education sector expenditure, are some efforts to promote Indonesia competitiveness in the global market

Challenge 4: Improving quality of bureaucracy

Corruption Perception Index, 2000-2008



Challenge 5: Poverty Reduction

Poverty with Different Standards												
	1996	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
BPS/Statistic Indonesia (Approximately 1.55 USD PPP)												
Number**	34,1	49,5	48,0	38,7	37,9	38,4	37,3	36,1	35,1	39,3	37,2	35,0
Percentage	17,5	24,2	19,1	18,4	18,2	17,4	17,4	16,7	16,0	17,8	16,6	15,4
Poverty Line using USD PPP 1 percapita/ day (World Bank)												
Number	15,4	na	24,9	20,9	19,7	15,5	14,5	16,5	13,6	19,5	15,5	14,2*
Percentage	7,8	na	12,0	9,9	9,2	7,2	6,6	7,4	6,0	8,5	6,7	5,9*
Poverty Line using USD PPP 2 percapita/ day (World Bank)												
Number	99,6	na	135	125,3	125,2	115,6	110	109,1	102,1	113,8	105,3	100,7*
Percentage	50,5	na	65,1	59,5	58,7	53,5	50,1	49	45,2	49,6	45,2	42,6*
*) projection **) Number of people below poverty line												
Source: BPS and World Bank												

SOCIAL-POLITICAL CHALLENGES

- RELATIVE ECONOMIC AND SOCIAL STABILITY HAS BEEN MAINTAINED AND THE COUNTRY HAS UNDERTAKEN DEMOCRATIC GENERAL ELECTIONS IN 1999, AND AGAIN IN 2004, THE FIRST UNDER THE AMMENDED CONSTITUTION, AND GEARING FOR THE NEXT GENERAL ELECTIONS IN APRIL 2009.

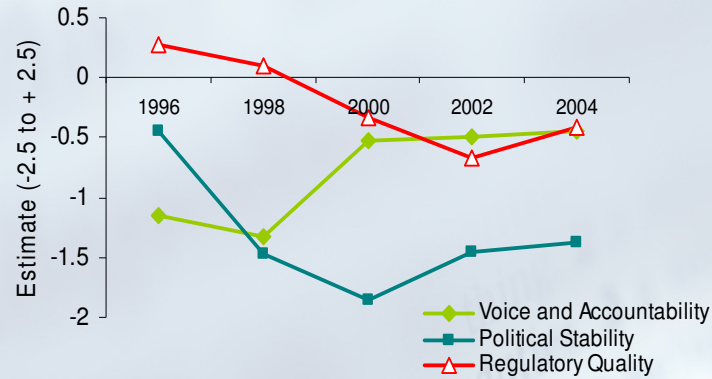
- HOWEVER, AS NOTED BY THE WORLD BANK, HAVING SHIFTED FROM BEING A '**DEVELOPMENT STATE**' TO A '**DEMOCRATIC STATE**', INDONESIA FACES MANY CHALLENGES THAT ARE COMMON TO TRANSITIONAL SOCIETIES. WHILE A LARGE MAJORITY OF INDONESIANS POLLED RECENTLY SAID THAT THEY WERE IN FAVOR OF THE CURRENT DEMOCRATIC SYSTEM, THERE IS ALSO WIDESPREAD FRUSTRATION WITH ONGOING CORRUPTION, WEAK FORMAL SECTOR JOB GROWTH AND A SENSE THAT THE POSSIBILITIES INHERENT IN A DEMOCRATIC TRANSITION HAVE NOT BEEN FULLY REALIZED (ROBISON AND HADIZ, 2004).

- WHILE CITIZENS ARE FREE TO DEMONSTRATE AND THE PRESS IS FREE TO WRITE WHAT THEY WANT, MANY CITIZENS ARE STILL SUBJECT TO ARBITRARY DECISIONS AND/OR RENT-SEEKING BY GOVERNMENT OFFICIALS, THE POLICE AND THE LEGAL SYSTEM (WORLD BANK, 2004). IT IS STILL COMMON FOR CITIZENS TO BE REQUIRED TO PAY BRIBES IN ORDER TO ACQUIRE PERMITS AND SETTLE LEGAL DISPUTES, FOR EXAMPLE (WORLD BANK, 2006).

- ❑ IN THE POST-TRANSITION PERIOD THE INDONESIAN POLITY HAS TO GRAPPLE WITH THREE KEY ISSUES IN CONSOLIDATING ITS NASCENT DEMOCRACY:
 - HOW BEST TO STRENGTHEN THE POLITICAL CULTURE, DEEPEN DEMOCRACY, AND ENHANCE POLITICAL INSTITUTIONALIZATION.
 - HOW TO ESTABLISH AND IMPROVE THE PERFORMANCE OF GOVERNANCE UNDER THE DEMOCRATIC REGIME.
 - HOW TO RESTORE GROWTH, ALLEVIATE POVERTY AND MEET OTHER ECONOMIC CHALLENGES.

- ❑ MEASURING THE PERFORMANCE OF GOVERNMENT IN THIS ROCESS OF CHANGE IS FAR FROM EASY OR STRAIGHTFORWARD. THE FOLLOWING FIGURE ILLUSTRATES THAT THERE WAS NO CLEAR TREND IN GOVERNANCE FOR INDONESIA OVER THE PERIOD 1996-2004. IT ILLUSTRATES GOVERNANCE TRENDS THROUGH (SELECTED) INDICATORS IN VOICE AND ACCOUNTABILITY, POLITICAL STABILITY AND REGULATORY QUALITY.

Governance indicators for Indonesia



Source: WBI Governance Indicators, 2004

- ❑ HOWEVER, SEVERAL OF THE RECENT CHANGES ARE NOTABLE: IMPROVEMENTS IN VOICE AND ACCOUNTABILITY REFLECT THE IMPACTS OF THE POST-CRISIS UPHEAVAL, WITH THE SUBSEQUENT EMERGENCE OF A DEMOCRATIC, DECENTRALIZED INDONESIA AND THE RETURN OF POLITICAL STABILITY FOLLOWING A FREE-AND-FAIR ELECTION PROCESS. REGULATORY QUALITY, HOWEVER, REMAINS WEAK.

- ❑ IN CONCLUSION, INDONESIA STILL FACES ENORMOUS CHALLENGES THAT NEED TO BE OVERCOME, ESPECIALLY UNDER THE LEADERSHIP OF THE NEW DEMOCRATIC REGIME.
- ❑ THE FAILURE IN MEETING THE CHALLENGES MAY RESULT IN THE DISENCHANTMENT AND REVERSAL IN LEGITIMACY OF THE DEMOCRATIC SYSTEM OF GOVERNMENT, OR AT THE LEAST THE NATION STRUGGLING WITH THE NEGATIVE EFFECTS OF A LOW QUALITY DEMOCRACY.

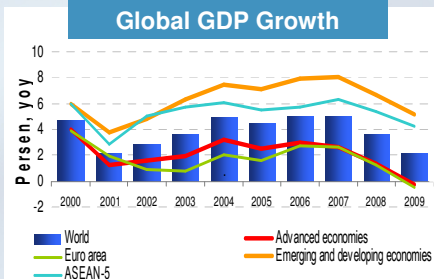
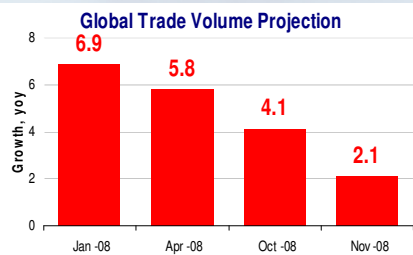


2008 FINANCIAL CRISIS

2009 World Growth projection revised down.....

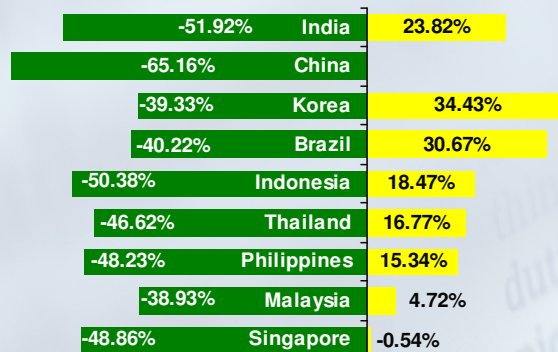
2009 Global Growth Projection revised to lower level

Projected Growth in 2009				
	Jan -08	Apr -08	Oct -08	Nov -08
World	4.4	3.8	3.0	2.2
USA	1.8	0.6	0.1	-0.3
Europe	1.9	1.2	0.2	-0.7
Japan	1.7	1.5	0.5	-0.2
China	10.0	9.5	9.3	8.5
India	8.2	8.0	6.9	6.3
ASEAN-5	6.2	6.0	4.9	4.2

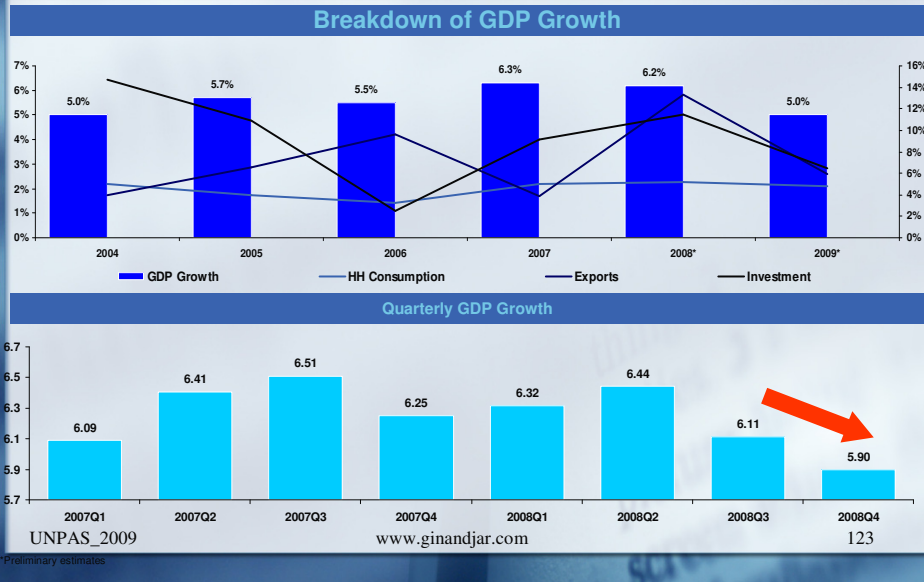


Depreciation of Stock Indices & Exchange Rates

YTD Performance as of December 31, 2008



2009 Economic Growth Will Be Slower



Economic Growth 2009

Indonesia: Economic growth (demand side)
2001-2009 (% per annum)

	2001-04	2005-2008	2008	2009
Domestic Demand	5,1	5,7	7,7	5,7
- Consumption	4,2	4,5	5,4	4,8
- Government Consumption	8,9	8,0	10,7	10,4
- Investment	6,5	8,0	12,6	6,5
- Export	5,9	10,4	13,7	5,9
- Import	7,2	10,5	13,6	6,1
GDP	4,8	6,0	6,2	5,0

Source: Calculated based on BPSData & Coord. Ministry of Economy estimation

Estimation of Crisis Impact to Economic Growth

CODE	Description	Production Orientation (%)		Growth (%)			
		Domestic	Export	2005	2007	2008	2009
1	Agriculture	100	0	2,6%	3,5%	5,4%	4,5%
2	Horticulture	89	11	2,5%	3,5%	4,0%	2,5%
3	Livestock	100	0	2,1%	3,3%	3,5%	2,1%
4	Forestry	92	8	-1,5%	-1,7%	-0,8%	-1,5%
5	Fishery	95	5	5,4%	5,8%	3,0%	2,0%
6	Oil/gasmining	50	50	-1,8%	-1,2%	0,0%	2,5%
7	Non oil/gasmining	39	61	12,1%	5,5%	0,0%	2,5%
8	Quarrying	98	2	7,4%	8,6%	7,8%	5,0%
9	Non oil/gas industry	75	25	5,9%	5,2%	4,0%	2,5%
10	Oil/gas industry	57	43	-5,9%	-0,1%	0,0%	5,0%
11	Electricity, gas, and water supply	100	0	6,3%	10,4%	10,5%	6,5%
12	Construction	100	-	7,4%	8,6%	7,5%	5,0%
13	Trade	85	15	8,9%	8,9%	7,5%	6,5%
14	Hotel and Restaurant	100	-	6,7%	5,3%	5,0%	4,0%
15	Transport	93	7	6,3%	2,8%	3,5%	3,0%
16	Communication	100	-	25,1%	29,5%	15,0%	10,0%
17	Financial	100	-	6,8%	8,0%	8,5%	5,0%
18	Public Government	100	-	1,9%	5,4%	5,0%	5,0%
19	Other services	100	-	7,9%	7,6%	7,5%	5,0%
20	Undefined activities	99	1	7,9%	7,6%	7,5%	5,0%
	GDP	85	15	5,7%	6,3%	6,2%	5,0%

Source: manipulated from BPS IO 2005

UNP Indonesia is adaptively to global crisis by relying on domestic market and countercyclical fiscal policy

UNP

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- POLITICAL IMPACT OF 2008 ECONOMIC CRISIS
 - ➔ 2009 LEGISLATIVE AND PRESIDENTIAL ELECTIONS

- HOUSE OF REPRESENTATIVES:
 - 44 POLITICAL PARTIES
 - 11.220 CANDIDATES → 560 SEATS
 - 7.319 MEN
 - 3.901 WOMEN

- HOUSE OF REGIONAL REPRESENTATIVES:
 - 1.116 CANDIDATES → 132 SEATS
 - 987 MEN
 - 129 WOMEN
- 4 SEATS FOR EACH PROVINCE