

# Chapter 1:

## Economic Crisis and Political Change

Indonesia has been many things in the past century: a colony, a fighter for independence, a communist sympathizer, champion of the third world, a model of third world development, an anti-model of third world corruption, a stage for feats of political heroism and tragedy. From the tumult of the fight for freedom and self-rule, to the left-leaning idealism and the swing of the pendulum to right-leaning pragmatism of the other side, from economic chaos of the Sukarno era to the dramatic growth and poverty reductions of the Suharto era and the puerile personal excesses that brought its halt, much has been said and written about the country. Yet to many, especially in the west, the world's fourth most populous nation with its largest young and Muslim population still remains a mystery.

This chapter is written with the faith that to fully understand Indonesia, one must not only know the present facts but the significant history of the people. This chapter is not an attempt to demystify all of Indonesia. It seeks to provide an account and accounting of the events leading and following the rise and fall of the New Order.

To that end, the chapter begins with a historical overview, an all-too-brief summary of pre-Suharto Indonesia to capture the sense of history driving the motivations of the people of the times. This is especially important, given that one argument often invoked to justify features of the New Order was that it was a correction to the politically sclerotic Sukarno Old Order. It then fast-forwards through time to the events of the late 1990s, focusing on the last years, months, and days of the Suharto era, when the New Order after thirty years of rule finally succumbed under the combined pressures of economic and social crises. Finally the last part of the chapter tries to explain why the tinderbox contained so much flammable material in the first place. Hindsight is always advantageous, and we use the benefit of post-knowledge to try to identify the key weaknesses, be it institutional, personal, or policy-level, that contributed to the downward cycle of politics and economics precipitating the crisis.

### Politics in pre-Crisis Indonesia

#### *A historical overview*

Indonesia, a country of 220 million (as of 2003), is an archipelago strung 5000 kilometers along the equator. Of the more than 13,000 islands, 5,000 are inhabited. Culturally, ethnically, and linguistically, its people are diverse, with more than 200 ethnic groups and 350

languages and dialects. All the major religions of the world are represented in Indonesia, although between 85 to 90% of Indonesians call themselves Muslim. With minor and extreme exceptions most Indonesian Muslims practice moderate forms of Islam.

When the Dutch first came to Indonesia at the end of the 16<sup>th</sup> Century, first as traders, and later as colonizers, what is now known as Indonesia was a multitude of countries, with mostly Muslim kingdoms spread throughout the archipelago. Many of the kingdoms were vassal states of larger or stronger Kingdoms, but some were independent and sovereign political entities. Before the Islamic era, this archipelago was ruled by several Hindu/Buddhist kingdoms, one succeeding another. For a long time, Java, a volcanic island with rich natural resources and fertile land, has been the political center of gravity of Indonesia.<sup>1</sup> Although in West Java there are remnants of one of the oldest kingdoms on the island, and while many other regions accepted the hegemony of Majapahit, for a long time the Sunda Kingdom in West Java maintained its independence from foreign domination. In South Sumatera, in the area around Palembang, Sriwijaya, a Buddhist Kingdom, held regional hegemony for over six centuries from the seventh century AD on. It was probably the first sea power to dominate a large portion of the western part of the archipelago. It had already established contacts and relations with other

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<sup>1</sup> The relatively more fertile, easily accessible and productive regions on the island, with flatlands, natural harbors and river networks that supported movement of people and commerce—that of central Java under the shadows of live volcanoes (Merapi and Merbabu), and the eastern part of the island, were bases of Java's most powerful rulers: the Hindu-Buddhist Sailendras, the Hindu Majapahit and the Muslim Mataram Kingdom.

powers in Asia such as China, India, and continental South East Asia (Tarling, 1992: 173-176). However it was the Majapahit empire, based in East Java, that held sway over an area encompassing much of present-day Indonesia as well as the Malay peninsula, until its demise in the 15<sup>th</sup> century (Tarling, 1992: 215-225), and its being succeeded by Muslim kingdoms, based in Central Java--the Demak, Pajang, and Mataram Kingdom (De Graaf and Pigeaud, 1974; Tarling, 1992: 66,87-88).

Dutch colonial rule was established gradually, island-by-island, after conquering or tricking the various kingdoms to subservience. Dutch colonialism encountered strong opposition throughout the region. Resistance was waged in the various kingdoms by their kings or princes to maintain their independence against the colonial invaders, and some were fought under the banner of religion. The longest and probably the most difficult for the Dutch to conquer was Aceh. It was not until the early 20<sup>th</sup> century that the Dutch could finally subdue Aceh (Van't Veer, 1985: 217-228; cf. Alfian, 1997:52-56).

Although the Netherlands was one of the major trading and seafaring nations of the world at that time, it was actually just a small country with a small population. Its ability to conquer a vast archipelago and control many kingdoms with long traditions and history can be attributable to some extent to their superior technological, and hence military advantages over the traditional indigenous political entities. However, the main method of military and political control that the Dutch used to rule over a much larger population and region was to play off indigenous kingdoms against each other and to exploit divisions and scrambles for power within the royal households. To augment their small military personnel the Dutch employed local mercenaries and drafted people from the poor areas and from the outer islands to serve as soldiers. Hence, during the long history of struggle against the Dutch that occurred in various parts of the archipelago, the wars were mostly fought by indigenous people. Obviously, *divide et impera* was a model practiced by other colonial rulers such as the British, but the Dutch were most skilful in deploying the strategy.

In most of the conquered territory the Dutch maintained indigenous power structures. They built their rule on the structure of the existing kingdoms or principalities. From the aristocratic elites the Dutch drew the manpower to rule and administered the vast archipelago. To run the economy, the Dutch relied on immigrants, mostly the Chinese, whom the Dutch thought would not pose a political threat to the colonial rulers (Ricklefs, 1991: 138-187).

In the early decades of the 19<sup>th</sup> Century, to pay for the bill of their military operations and intensify the returns on their investments in the colony, the Dutch introduced a forced cultivation system called *cultuurstelsel*. It was cultivation of export crops by the Javanese farmers that was ruthlessly enforced as a form of tax payment.<sup>2</sup> This system of forced cultivation and labor brought impoverishment to the economy of the colony and suffering to the people (Fasseur, 1992: 22). Amidst growing opposition in their own homeland, the Dutch colonial rulers abandoned this system several decades later, replacing it with private enterprise. Private enterprise as it was transplanted into the colony was just another form of exploitation and oppression. It provided the liberal pretext for more extensive economic exploitation that continued unabated through the latter part of the 19<sup>th</sup> century well into the mid 20<sup>th</sup> century (Ricklefs, 1991: 183-189; Fasseur, 1992: 223-238).

Recognizing that controlling such a vast, complex and growing economy required a bureaucracy and a professional class, the Dutch offered limited education opportunities to the aristocratic elite. Education was opened to the populace, and expanded after the introduction of what was known as the "ethical policy". This policy was prompted by growing economic interest and humanitarian concerns in Europe in the beginning of the 20<sup>th</sup> century that led the colonial rulers to give more attention to social welfare and education of the indigenous population. This resulted in the rise of a new class of elites among the people, a group independent from the aristocracy. They formed the seed of the future leaders of the independent movements. Many sons of the aristocratic families also joined these increasingly nationalist and independent oriented cadres, although many retained their allegiance and emotional ties to the colonial masters. With the opening of education, increasing number of indigenous people were exposed to western ideals of freedom, justice, individual rights, democracy and modern nationalism (Poesponegoro and Notosusanto, ed., 1993: 14-31; Van Niel, 1984: 50-138).

Not only leading to the spread of western ideas, the widening horizon also gave impetus to the growth of Islamic modernism, various strains of socialism, and even the women's emancipation movement, as led by Kartini from Central Java and Dewi Sartika from West Java. The ethical policy also gave birth to a people's council (*Volksraad*), established by the Dutch to accommodate the

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<sup>2</sup> The enforcement of this extractive system was supervised by the Dutch colonial administration supported by the local feudal authority or regents.

liberals at home and to appease the growingly restive colonial subjects. Although it only had an advisory function and did not have actual political power, it did provide the budding Indonesian independent leaders with a political institution, a forum where they could exercise political debates and voice the grievances of the people against the colonial authority. (Poesponegoro and Notosusanto, ed., 1993: 237-243; Tarling, 1992: 248; Lubis, 1998: 297-298).

### *Rise of Indonesia's nationalism*

The sense of being one nation, of singular nationhood, did not come to the people in this archipelago until the beginning of the 20<sup>th</sup> Century (see Nagazumi, 1989: 257). The birth of the intellectual organization Budi Utomo, based not on religious or ethnic grounds (although it was predominantly Javanese), on May 20 1908, is to this day celebrated as the “National Awakening Day”. However the strongest push toward nationalism was the “Sumpah Pemuda” declaration or oath of various youth organizations, representing different regions, ethnicities and religions, of Indonesia as One Country, One Nation and One Language (see Ricklefs, 1991: 281-282). The Indonesian language itself originated from the Malay language, which was the language of a minority. Javanese was more widely spoken, but Malay was the primary commercial language, spoken by traders and merchants for centuries throughout the archipelago. Having one national language spoken by all was and has till today been a strong bond that unites this multicultural and multiethnic society inhabiting a vast archipelago.

At the end of Dutch colonial rule Indonesian society was stratified into a class structure that consisted of a great majority of smallholders or itinerant farmers, a small working class, an even smaller middle class consisting mainly of bureaucrats who came mostly from the indigenous aristocratic class (Kartodirdjo, 1988:105-150). A Chinese (and to a much lesser extent other “eastern” immigrants such Indian and Arab) merchant class occupied the middle, and at the top of the structure were the Dutch colonial ruler and the large Dutch or multinational business enterprises.<sup>3</sup> By the end of the

Dutch colonial period, the Indonesian independent movement arose from the small elite of bureaucrats and had gained so much momentum that the resistance only waited for a trigger to erupt.

In World War II, the Japanese military drove out the Dutch and occupied Indonesia as a new colonial ruler. In the beginning many Indonesians saw the Japanese as their savior. Many Indonesian intellectuals found the vision of Greater East Asian Co-prosperity to be attractive. Many hoped that the Japanese came to liberate Indonesia from the yoke of the western colonialists (Poesponegoro and Notosusanto, ed 1993:1-17). However the hope did not materialize. The Japanese occupation, though brief—only three and a half years—was brutally repressive. Like any other colonial power the Japanese did not have any intention to voluntarily grant independence. In fact, during the Japanese occupation the people suffered more than under the Dutch because the economy was geared to support the Japanese war efforts. People were driven into forced labor, thousands were sent to foreign lands such as Burma to work on the notorious Death Railway. Ironically, the Japanese occupation actually paved the way to the final phase of the struggle for independence. To support their war efforts, the Japanese created auxiliary military forces (PETA) that would become the basis of the revolutionary armed forces during the war of independence and later, the foundation of the national army (Notosusanto, 1979; Ricklefs, 1991: 297-315, Lubis, 2003: 35-53).

### *Construction of independence*

The defeat of the Dutch at the hands of an Asian power enhanced the confidence of the resistance and strengthened sentiments supporting independence among the larger population. Most importantly, near the end of their occupation, recognizing that the outcome of the war was unlikely to be favorable, the Japanese occupation authority allowed a committee to be established to “investigate the preparation of independence” with the intent to gain the support of the local people and as much as possible stall the impending defeat. In this committee Indonesian leaders representing various groups and interests discussed a wide range of issues on the construction of an independent Indonesia. The most important discussion in the committee was on what philosophical foundation the independent Indonesia state should be built. Long hours were spent on exhaustive and well-informed debates on the political culture and structure of the new state, whether it would be a republic or a kingdom, unitarian or federal entity, presidential or parliamentary system of government. The place of

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<sup>3</sup> Pabottinggi (1999: 230) cites Sumitro Djojohadikusumo who observed that in 1936 Indonesians comprised 98 percent of the population but received only 20 percent of the national income, while the Chinese, who constituted 2 percent of the population gathered 20 percent of national income, with the remainder or 60 percent going to the Europeans although they comprised only 0,5 percent of total populace.

religion in the state and the role of the state in religious affairs were also debated (Poesponegoro and Notosusanto, ed., 1993: 89-100; see also Yamin, 1959).

Eventually a consensus was reached on a nationalist non-sectarian state, a unitarian republic with a presidential system of government. The founding fathers of Indonesia's independence agreed on *Pancasila* (Five Principle) as the state philosophy. The five principles are: belief in one God, a just and civilized humanity, unity of Indonesia, democracy and social justice. The agreement on *Pancasila* as the basic principles for independent Indonesia had defused the potential confrontation between Muslim and non-Muslim, and between political Islam against the nationalists. In the original draft, there were seven words contained in the article affirming the belief in one and only God and ensuring the freedom of worship, with an additional stipulation that the *Islamic syariah* (or laws) should be practiced by its adherents. The nationalists and leaders representing the Christian population and regions opposed the inclusion of the seven words, known as the Jakarta Charter (*Piagam Jakarta*), in the Constitution. After long and hard debate, the Muslim leaders, understanding the need to preserve national unity consented to drop this stipulation (see Anshari, 1997).

### *Birth of a nation*

During the long years of struggle against Dutch and Japanese rule, two leaders emerged as *primus inter pares* among the leaders of the independence movement: Sukarno and Hatta.<sup>4</sup> All the necessary elements for an independent nation had already existed when the Japanese surrendered to the Allied powers: a determined people with a strong sense of nationhood, leaders, a (draft of a) written constitution, and a large number of people trained to defend independence. Just two days after the Japanese military capitulation, on August 17<sup>th</sup>, Sukarno and Hatta on behalf of the people, proclaimed the independence of Indonesia. On August 18<sup>th</sup> the Committee for the Preparation of Independence declared the 1945 Constitution as the constitution of the Republic and on the same day elected Sukarno and Hatta as President and Vice President of the new nation. In accordance with Transitory Article of the Constitution, a National Committee

composing of leaders representing various political spectra and the regions was later established., the performed the function of the parliament.

The people supported the independence proclamation immediately, and military units were formed to defend the new gains. These units seized arms from the surrendering Japanese army.<sup>5</sup> By the time the Dutch, joined by other Allied powers, arrived in Indonesia, they faced an independent nation and a determined people defending their freedom (Poesponegoro and Notosusanto, ed., 1993: 121-122; Smail, 1964:20-21). The Dutch refused to recognize the independence of their former colony, and with the help of their allies—mostly British and Australian troops, they moved to take formal authority away from the Japanese. Fighting inevitably broke out between the invading army of the former colonial power supported by their allies and the defenders of the new nation. The war of independence occurred throughout the islands, but the most severe battles were in Java, Sumatera and Sulawesi (Ricklefs, 1991: 317-52). The war for independence was waged for 5 years.

Alongside armed struggle, the young Indonesian government also pursued diplomatic means. The former World War II Allies were split, with the Soviet Union supporting the independence of Indonesia and the United States backing the Dutch position. It was the first crack in the alliance after their victory against the Axis powers. Many of the military and guerilla operations launched by the newly established national army were coordinated with the diplomatic efforts. In the meantime, Dutch forces succeeded in reoccupying some parts of Indonesia, notably the eastern and outlying region and initiated the establishment of puppet local governments supporting the colonial sovereignty of the former colony.

During those years of struggle the Dutch military managed to capture the civilian leaders of the Indonesian government in its temporary capital of Yogyakarta, but the nation continued to fight for its independence, with the military waging a guerilla war and a provisional Government operating out of Central Sumatera. Indonesia's independence gained the support of the international community and growing public support in the western countries whose government supported their wartime ally. Several times negotiated settlements were

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<sup>4</sup> Sukarno was born in East Java of Javanese father and Balinese mother. He was trained as an engineer at the Technical Faculty of the University of Indonesia located in Bandung. Hatta came from West Sumatera and studied economics in the Netherlands. They were known as the *Dwitunggal*, literally "two in one", two inseparable leaders of the Indonesian revolution.

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<sup>5</sup> Since the Japanese army were instructed to hand over their arms to the victorious Allies, the seizure of arms by the newly established revolutionary forces encountered resistance, although in some areas the Japanese military voluntarily relinquished their arms to the local revolutionary units.

attempted. One effort of negotiation was conducted at a resort in West Java called Linggarjati in November 1946, and another on an American naval ship the *Renville* in January 1948. Both failed to reach a lasting solution, as the Republic demanded a complete and unconditional recognition of Indonesia's independence (Ricklefs, 1991: 341-342)

During the war of independence between 1945 and 1949, aside from having to face the invading colonial enemy, the fledgling nation had also to face domestic challenges. One was a rebellion by Muslim extremists under the name of Darul Islam, concentrated in some part of West Java and South Sulawesi. They declare an Indonesian Islamic State with an Indonesian Islamic Army (Van Dijk, 1993: 59-71; Lubis, ed. 2003: 281- 291). The other was a communist attempt to take over government and establish a communist state with the seat of power in Madiun, a city in East Java. The communist rebellion was immediately overcome, while Darul Islam took many more years to be subdued. The communist revolt and the quick response of the Indonesian government influenced opinion on Indonesia within the western powers. As the threat of communism subsided with the end of the Madiun affair, the United States and its allies began to see Indonesian independence, which was originally suspected as a communist-controlled revolutionary uprising, in a different light. To gain support among its western allies the Dutch had always maintained that Indonesian independent leaders were dangerous Marxists and the Indonesian army was no more than communist rabble, and claimed that independent Indonesia would pose a threat to the West (Ricklefs, 1991: 343-46).

Having recognized that they could not win a war against a nation determined to hold on to their freedom, and enjoying little sympathy from the international community, the Dutch government in a Round Table negotiation held in December 1949 in The Hague finally agreed to recognize the independence of their former colony, but in the form of a federated republic. The Republic of the United States of Indonesia consisted of the original Republic of Indonesia, and 15 Dutch created states. People who came from the local aristocracy who feared that in the new Indonesia they would lose their feudal privileges mostly led the 15 states. They were more comfortable being subjects of the Dutch with their monarchy system than with a republic, even one of their own people. For the Dutch, having small states in the federation would make it easier for them to continue to control and maintain their interests, especially economic interests. The federated states lasted less than a year. The arrangement collapsed because even people in the so-

called states were against the creation of the federal state and wanted to return to the fold of the unitarian republic that was proclaimed in 1945. In August 1950 the federal state was abolished and the unitarian Republic of Indonesia reestablished. However the constitution was no longer the 1945 Constitution but a Provisional Constitution of 1950. The new constitution called for a parliamentary system of government headed by a Prime Minister responsible to a parliament, while the President was only the head of state and had almost no political power (Ricklefs, 1991: 347-53).

### *An attempt at liberal democracy*

In the early years of independence—when the nation was fighting the returning colonial forces--a parliamentary system, in which the government was headed by a Prime Minister, was put in place despite being a departure from the Presidential system enshrined in the 1945 Constitution. The cabinet was not responsible to the President as mandated by the 1945 Constitution but to the (transitory) parliament. The period witnessed the rise and fall of governments with differing policies and conflicting strategies on the struggle against the Dutch. The weak short-lived governments created a leadership vacuum and indecisiveness at time when strong leadership was needed. The political bickering and maneuvering not only resulted in instability at time of war, but also indicated the weakness of the parliamentary system, the perception of which planted a sense of distrust in the people against liberal political systems and politicians in general. The military, remained unwavering in the struggle against the colonial forces, gained the respect and the trust of the people. The seeds of support for the philosophy of “dual function” of the military (*dwifungsi*) were sowed during this critical time for the survival of the Republic (Said, 2001:2-8).

The 1950 Provisional Constitution represented a complete departure from the 1945 constitution, which mandated a strong presidential system. The period of constitutional parliamentary democracy from 1950 to 1959 was known as the liberal era. Liberalism in Indonesian political jargon had a bad connotation, as it was associated with capitalism as an oppressive system. Under the parliamentary system many small parties competed constantly to form and reform coalitions. Consequently, the government changed frequently, leading to political instability and growing disillusionment toward the liberal political system (Ricklefs, 1991: 356-86).

One remarkable achievement should be noted. In

1955 the first general election in the history of the young republic was held, an election agreed among many modern scholars as a free and fair multiparty election (Huntington, 1991:19; Uhlin, 1997: 36-37; see also Feith, 1962). The election was to elect the parliament and the Constitutional Assembly or *Konstituante*, a body whose task was to write a new constitution. Although it was hailed as the first and real attempt by Indonesia at constitutional democracy, the result showed how fragmented Indonesian politics was. The nationalist party (PNI), originally formed by Sukarno as a vehicle for the independence movement, received 22.3 % of the vote, while two religious based parties—Masyumi and Nahdathul Ulama—received 20.9 and 18.44% respectively. Indicating the true and open nature of the democratic election, the communist party, despite having been involved in a rebellion and thus treason during the war of independence, was allowed to participate in the election and garnered a surprising level of support, 16.4% (Ricklefs, 1991: 371-376). The general election resulted in further instability in the government, as no government was strong enough to stay in power for long. Coalitions had to be formed among strange bedfellows. Those coalitions did not last long, as party political interest took precedence over national interest.

Those were turbulent years, with central authority being challenged by separatist movements in the regions, while at the same time the Darul Islam continued to pose security problems. In 1957 the government declared a state of emergency in response to the increasing threat from separatist rebellions in various parts of the country. The state of emergency had propelled the military into civilian government and the political arena, paving the way to the institutionalization of the role of the military in politics (Said, 2001: 12-14). In the meantime conflict with the former colonial master had resumed, as the Dutch kept their hold on West Irian. The struggle to regain the territory was the mainstay of Indonesian politics after the recognition of independence in 1949. Intensive diplomatic efforts were undertaken bilaterally as well as in multilateral fora, in particular within the United Nations. Taking lessons from the revolutionary experience where diplomacy alone could not succeed without the support of military efforts, a military campaign to free West Irian was launched.<sup>6</sup> To enable the Indonesian armed forces to challenge the Dutch militarily, Indonesia needed to enhance its military capacity. Since most western countries supported the Dutch position on the West Irian issue,

Indonesia turned to the Eastern Bloc to procure the military equipment, resulting in more shifts in domestic political attitudes towards the socialist camp. There was a growing dissatisfaction against the west, their continuing colonialism and their ‘oppressive’ political and economic systems.

During this period Indonesia hosted the first Asia Africa Conference in Bandung in 1955. Further, with other third world leaders President Sukarno initiated the creation of a political grouping consisting of newly independent and developing countries which were not aligned to either the Western or the Eastern blocs. The Nonaligned Movement, still existing today, was born. Indonesia took the leading role in the liberation of people still under colonial rule, and Sukarno’s came to be known as the champion of the “Third” World.

Largely due to political fragmentation, the *Konstituante* failed to reach the necessary majority to get an agreement on a new constitution. Politically the country was drifting in no particular direction. Due to political instability, the drain of resources needed to preserve national unity (the military campaigns against the regional separatism, the Darul Islam, and to regain West Irian), the economy continued to deteriorate. The Indonesia public were getting more disillusioned with the political system, blaming it for everything that went wrong. In particular, democracy and the idea of institutionalized opposition were blamed for the sharpening of social tension (Uhlin, 1997: 37).

With the support of the military and many functional groups, on July 5<sup>th</sup>, 1959, President Sukarno dissolved the *Konstituante* with a Presidential Decree and restored the 1945 Constitution, in one stroke restoring the presidential system of government. In March 1960 Sukarno dissolved the parliament that was democratically elected in the 1955 election. He established a new Parliament called the *Gotong Royong* (Cooperation) Parliament (DPRGR) and the Provisional People’s Consultative Assembly (Provisional MPR or MPRS). This actually constituted a violation of the 1945 Constitution, as according to the 1945 Constitution the MPR was the manifestation of the sovereignty of the people and had the power to elect and fire the President. The President was subordinated to, and thus responsible and accountable to, the MPR and not the other way around (Ricklefs, 1991: 402-403).

During this period of continuing turmoil, Sukarno declared that liberal democracy or the so-called the western kind of democracy, had failed in Indonesia and had brought only disunity and misery to the people. It is

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<sup>6</sup> The Commander of the Mandala Operational Command to free West Irian was none other than Major General Suharto, the future second President of Indonesia.

important to note that from Indonesia's inception, the threat to the country's unity has always been a primary concern in this multicultural and diverse nation. This was true for Sukarno. Also, the threat to the national ideology Pancasila was regarded as a very serious challenge. As was foreign subversion—there was an increasing suspicion towards the western countries, and their “imperial and neo-colonialist” motives. The country was leaning further and further to the left in its political orientation, while formally maintaining “active neutrality”. The animosity towards the west and cozy relations with the socialist bloc gave the advantage to the communists, whose party, the PKI, increasingly became a major power in Indonesian politics. Two staunch anti communist parties, Masyumi and PSI, were banned by the government on the suspicion of aiding and abetting the Muslim and regional separatist rebellions. This further strengthened the communist grip on Indonesian politics.

### **Guided democracy**

After the *de jure* return to the 1945 Constitution in 1959, Sukarno immediately promulgated a system called “guided democracy”, based supposedly on Indonesia's traditional way of decision making, which relied heavily on decision-making by consensus (*musyawarah mufakat*) guided by the wisdom of elders. The MPRS then conferred upon Sukarno the title of the Great Leader of the Revolution, which in effect carried more power than what the mere title may suggest. As the leadership of revolution was considered the highest source of authority, he held power even greater than what was entrusted by the constitution on the Presidency. In fact he was vested with power even above the constitution itself. He was also appointed formally as “a lifelong President”. The Chairman of the MPRS was given the rank of a senior cabinet minister, as was the Speaker of the Parliament and the Chief Justice of the Supreme Court. Thus began a pattern that would often be repeated, an effort, either blatant or latent, by the executive branch to usurp the power of the other branches of government (Legge; 1985: 359-365; Ricklefs, 1991:387-403). Sukarno ended Indonesia's first attempt at democracy. Indonesia, part of Huntington's second wave of democratization, now joined the group of countries to reverse from democracy to authoritarianism during the turbulent decade from the mid 1950s to mid 1960s; lapsed democracies such as Korea, Turkey in Asia, Nigeria in Africa and many in Latin America (Huntington, 1991: 19-21).

A new international development occurred after the struggle over West Irian came to a conclusion; Indonesia finally won back the province in a UN

sponsored agreement in 1962. As it turned out, the resolution of the West Irian issue did not end Indonesia's ideological battle against the West. President Sukarno was opposed to the establishment of a new Malaysian state, and accused it as no more than a British (read: western) neocolonial ploy. He perceived the creation of Malaysia as a threat to Indonesia. As such, the new phase of confrontation or *konfrontasi* against the West, represented by proxies such as the United Kingdom and Malaysia, had earnestly begun. To undertake military confrontation, Indonesia became more dependent on economic and military aid from the Soviet Bloc (Ricklefs, 1991: 413-415).

*Konfrontasi* further strengthened the anti-western elements within the Indonesian polity, and provided further advantage to the PKI. President Sukarno told the west: “go to hell with your aid”. He developed the idea of forming the New Emerging Force as a counterweight to western-dominated international politics. Indonesia sponsored and hosted the Games of the New Emerging Forces (GANEF), as a substitute to the Asian Games and the international Olympics, and took initial steps to convene The Conference of the New Emerging Forces (CONEFO). *Konfrontasi*, and Indonesia's resulting isolation from the rest of the world reached its peak when Sukarno announced Indonesia's withdrawal from the United Nations in January 1965, the first country ever to leave the United Nations (Legge, 1985: 382, 411; Ricklefs, 1991: 417, 422; Challis, 2001: 50-70).

For all of his rhetoric the ordinary Indonesian people loved Sukarno. He was revered as the father of the country who had fought for the country's freedom all his life. He had suffered imprisonment many times. And he managed not only to bring Indonesia to the gates of independence but also achieved complete territorial sovereignty and preservation of unity. He was a man of vision, an ardent nationalist albeit a romantic idealist. He imbued among the people the pride of being Indonesian and spent all his adult life projecting the dignity of a nation with long history, culture, and tradition. He was regarded in many parts of the world as a great leader and a world statesman (see Legge, 1985: 370-371).

Historians should acknowledge his role in Indonesia's history and the genuine affection the Indonesian people had for him. Yet the reality of life had undone him. The intense political maneuvering, the isolation from international economic resources, and the cost of military built up first against the Dutch and later for the *konfrontasi*, and misguided economic policies based on the notion of a “guided economy” brought chaos to the

economy and increased suffering for the common people. Even the most basic goods and daily supplies were difficult to obtain. People had to queue for all kind of necessities.

### **The end of the Old Order**

Amidst the political turbulence and economic hardship, there were rumors surrounding Sukarno's health. In mid-September 1965, he was treated in China for kidney-related illnesses. The political volatility caused by the rumor increased the tension between the PKI and the anti communist forces, with the military standing in the forefront. Rumors of attempted coups were abundant, and on September 30<sup>th</sup>, 1965, a coup did take place. The PKI, knowing firsthand from the Chinese doctors of the President illness, and fearing a military takeover as Indonesia at the time of *konfrontasi* was in a state of emergency, staged a military coup spearheaded by units in the military which had had their ranks infiltrated by the PKI for some time. In one stroke they eliminated the leadership of the army, including the Army Chief of Staff. The Army Chief of Staff was kidnapped at his home and with other prominent generals was taken to an area at the outskirts of Jakarta. They were executed by communist masses that were already gathered. The execution was brutal and savage, done communist style. However they missed one general who was not at home (he was out fishing), Major General Suharto, who at that time was the Commander of the Army Strategic Forces. The Commander of the Armed Forces, General Nasution, escaped the squad who was sent to kidnap him at his home. He was injured but safe, but his young daughter and aid were killed. The September 30<sup>th</sup> Movement then made a radio announcement that they were taking over the government (Legge, 1985: 443-45; Ricklefs, 1991: 426-28; see also: Sulistyono, 2000; Challis, 2001: 79-86).<sup>7</sup>

Nasution and Suharto then proceeded to mobilize the loyal military forces, and neutralized the units that were involved in the mutiny. Sukarno himself was not harmed and continued to stay in office as President. President Sukarno appointed General Suharto Commander of the newly established Operation Command of Security

and Order (the infamous KOPKAMTIB). Using that authority General Suharto launched a nation wide hunt for the alleged perpetrators and supporters of the coup.<sup>8</sup> The military maintained that subsequent investigations of those who were involved revealed that the PKI was behind the attempted coup, presenting the findings to the President. When he showed a reluctance to issue an order to deal with the rebellion, and in particular against the PKI, the rift between him and the military came to the open. Sukarno's indecisiveness made him the target of popular movements rallying behind the army. He was then accused of complicity in the attempted coup. There was never any evidence of Sukarno being a communist or communist sympathizer. In fact in 1948, the target of the PKI revolt was no other than Sukarno himself. However, he was very much bound by his own ideology of a great coalition of nationalist, religious and communist forces (*Nasakom*), as the progressive revolutionary forces that would defeat the imperialist and neo-colonialist and bring the country to greatness. (Anderson and McVey; 2001: 187-204; Challis, 2001: 71-112; Abdullah, 2001: 284-292).

Their pressure had succeeded in forcing Sukarno to accede authority of day-to-day government to General Suharto with a Letter of Instruction issued on May 11<sup>th</sup> 1966 (*Supersemar*). General Suharto assumed formal command of the army when he was appointed the Army Chief of Staff and subsequently became the Commander of the Armed Forces and Minister of Defense succeeding General Nasution who was elected as Chairman of the MPRS. Using the power vested upon by the President he proceeded to ban the PKI.<sup>9</sup> The MPRS Special Session in

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<sup>8</sup> The military actions had been sweeping and uncompromising, and were alleged to affect the lives of many innocent people. In the actions against suspected communists and their sympathizers, civilians were involved, and many had allegedly used the opportunity to settle old scores. There were reports of massacres in various parts of the country, mostly in Central and East Java and Bali (Robinson, 1995: 280-286). Estimates of the total number of lives lost in what was termed by some western scholars as Indonesia's "forgotten civil war" range from 200 thousand to a million.

<sup>9</sup> Leaders of the PKI and allegedly related organizations, and high ranking members of Sukarno's government, including some military members suspected of being communist sympathizers, moles or cadres were tried. Many of them were sentenced to death or long-term imprisonment. Those whose cases lacked evidence for trial either were sent to camps—notably in the Maluku island of Buru—or just given stamp in their ID cards of their

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<sup>7</sup> There are other interpretations of the events that took place around mid-September and early-October 1965, among others as presented by two scholars connected to Cornell University, Benedict Arnold and Ruth McVey. In the "Cornell Paper", as it would come to be known, they suggested that the coup was mainly the result of internal conflicts within the army (see Anderson and Mc Vey, 2001)

1967 formalized the March 11<sup>th</sup> letter of instruction. For his alleged complicity in the communist coup attempt in 1965, based on his refusal to act against the PKI, the same MPRS Special Session stripped Sukarno of his presidential powers and appointed General Suharto as Acting President.

In the 1968 General Session the MPRS dismissed Sukarno as President and appointed General Suharto as his successor after Sukarno's accountability speech was rejected by the MPRS. The same session also banned the PKI and all Marxist/Leninist literature except in universities for educational purposes. The MPRS also decreed the return to the pure implementation of the 1945 Constitution, referring to "deviations" in the preceding era (Ricklefs, 1991: 432-33; Challis, 2001: 111-12; Elson, 2001:135-38; Abdullah, 2001: 284-292). The New Order was born as a "correction" to the old.

## **The Crisis**

### ***The unexpected thunderstorm***

Many studies have been done on the Asian financial crisis. Although the general characteristics of the crisis were similar in the various crisis-hit countries, the depth and duration of the economic crisis in Indonesia were arguably unique. The exceptional severity of the Indonesian crisis was a reflection of the confluence of economic and political crises, and illustrated well how economic and political forces can reinforce each other in time of crisis.

Initially the financial crisis in Indonesia seemed to be containable. Indeed, in the beginning the Indonesian public, including the business community and even many within the government, did not take the contagion from the financial crisis in Thailand too seriously as most of the vital economic figures indicated sound fundamentals. From 1989 to 1996, annual real GDP growth averaged 8 percent, spurred by strong investment behavior. The overall fiscal balance was in surplus after 1992 and public debt fell as a share of GDP as the government used privatization proceeds to repay large amounts of foreign debt. Inflation, at near 10% was a little higher than that of other East Asian Economies, but was still low by

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alleged relation with the coup or the PKI. Most lost their jobs, and their children would bear the stigma. Recently, however many of the victims of the purge have come out and demanded justice (see Latief, 2000; Katoppo, Kusumaningrat, Soeparno and Cholil, 2000).

developing countries standards (IMF, 2003: 11). Indeed, Furman and Stiglitz (1988) found that Indonesia's crisis was the least predictable from among a sample of 45 troubled countries.

Moreover, since the Indonesian economy had been subjected to various crises in the past, and always come out stronger; the general atmosphere was of confidence in the resilience of the economy.<sup>10</sup>

### ***The initial responses***

The gravity of the situation became apparent when the currency continued to depreciate and the measures taken by the Central Bank (Bank Indonesia)—first widening the intervention margins of the crawling peg regime in mid July 1997, and then free floating the rupiah in August—did not help. Besides floating the currency, Bank Indonesia raised interest rates and tightened liquidity by transferring a large amount of public sector deposits out of commercial banks (Djiwandono, 2001:31-63). In September 1997, after a cabinet meeting the government announced a set of policies ("ten policy-measures") covering the financial, monetary and banking sectors, as well as the real sector. In the banking sector two important decisions were taken: a) to bail out healthy banks facing temporary liquidity difficulties, and b) unhealthy banks should be merged with other banks failing which they were to be liquidated. The decision also included the postponement of the implementation of large projects, with a total cost of \$13 billion, projects which needed overseas loans (Djiwandono, 200: 64; IMF, 2003: 12). The decision to postpone the implementation of those projects was meant both to facilitate the necessary current account adjustment and to help rebuild international confidence by signaling the government's determination to reduce dependence on capital inflows while improving governance. It was received by the market as a positive sign of the government's determination to prevent further deterioration of the economy, especially as some of the projects were linked to the President's family. The initial response of the Indonesian authorities to the threat of

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<sup>10</sup> The government was optimistic enough about the outlook of the economy that in August 1997 a high level team was sent to Russia to negotiate for a purchase of one squadron of the Russian Sukhoi fighters (Kartasasmita, 2001: 14). The choice to buy from Russia was made as sales of military hardware to Indonesia were curtailed by the US due to the East Timor issue. The planned purchase was eventually aborted when the government realized that the country was facing a serious financial crisis.

contagion was widely praised for its promptness and decisiveness.

Despite these corrective measures the currency continued to depreciate, and by early September had moved beyond 3000 per dollar, more than 20% below the average for the first six months of the year. Worried by this development, in October 1997 the Indonesian government turned to the IMF for assistance. The initial IMF program was based on the assumption that the crisis was essentially a moderate case of contagion --- an overshoot of the exchange rate (IMF, 2003: 78)--- and designed a program that was standard and conventional for such a “mild” crisis, allowing heavy emphasis on tightening money supply in order to raise interest rates and prevent capital from fleeing, and attract the already fleeing capital back into the country. The strategy that worked well in warding off speculators in 1984, 1987, and 1991 did not help restore the value of the currency; on the contrary the loss of value became more severe than generally anticipated. In retrospect, many observers agree that there was a misjudgment by both the government and the IMF of the depth and nature of the crisis.

### *The confusion*

In November 1997, as part of the IMF program the government closed 16 banks facing serious liquidity problems. Initially the closure of the insolvent banks was hailed as a significant measure to stem the growing tide of the crisis, particularly as three of the banks were connected to the President’s family. The policy lost its credibility when the public saw the inconsistency in the closure of the 16 banks, as it was widely believed that many other banks were also in similar condition yet spared from closure. Although there was little doubt that these banks were in bad shape and deserved to be closed, another problem was that the banks were closed abruptly without clear explanation. The banks were closed in the midst of very volatile capital withdrawals, without a financial and banking restructuring scheme and deposit insurance in place, spreading panic and deepening the financial crisis (Sachs and Woo, 2000: 21; Radelet and Woo, 2000: 173-174). The public, believing that other banks might also be closed, sparked off bank runs that seriously undermined the banking system, damaging even the healthy banks. The fact that the banks related to the President’s family had been closed had created the scare that other “unprotected” banks could easily be closed. The situation worsened when one of the banks owned by the President’s son was allowed to resurface, albeit under a different name (McLeod, 1999: 221).

With Suharto’s endorsement towards exceptional treatment of first family assets, open conflict began between the president and the IMF that undermined the effectiveness of the efforts at arresting the financial crisis. When there was certain indication that the President was going to allow some of the large projects that had been shelved to continue as originally planned, with accompanying suspicion that “all of which were controlled by his close associates” (Radelet and Woo, 2000: 174), the relationship was further weakened.

In the meantime there were conflicting statements from the government regarding policies on bank restructuring. At first Minister of Finance Mari’e Muhammad announced that if bank management did not put their houses in order they would face serious consequences, which in effect was an indication of the possibility of further closure. Later, the Minister of Finance reversed this tough stance and announced that there would be no more bank closures. These conflicting statements not only created confusion and increased uncertainty but also showed the government’s indecisiveness. The policy not to close anymore bank also meant that in the face of widespread bank runs, Bank Indonesia would continue to provide unlimited liquidity support, leading to a loss of monetary control and heavy inflationary pressures (IMF, 2003: 69-70).

In January 1998, a new confusion flared up regarding the state budget. As part of tight fiscal policy required by the November IMF program, an overall budget surplus of 1.3 % of GDP was targeted for fiscal year 1998/99. Many observers criticized the fiscal tightening policy imposed by the IMF financial package. McLeod for one argues that while there was no doubt that aggregate demand had fallen considerably, the first response of the IMF was to put pressure on the government to implement policies that would instead reduce it even further. In other words, he argues that: “the push was for contraction, when it was obvious that expansion was required if Indonesia was to regain its momentum” (McLeod, 1999: 222). The Indonesian government recognizing that aiming at such a surplus was unrealistic, in early January 1998 presented to the parliament a draft budget for 1998/99 with zero surpluses. This budget drew much criticism, especially from abroad for being too loose. It appeared to the public as if the government had violated the terms of the agreement with the IMF and triggered speculation in the press that it might induce the withdrawal of the IMF support. Radelet and Woo (2000:173) observe that: “The international community strongly, and incorrectly criticized the government for its proposed new budget in January 1998, sending the financial markets into a nosedive”. The IMF

did issue a statement of support for the announced budget a few days later, but the damage had been done, and suspicion lingered on that everything was not all right between Indonesia and the IMF. The IMF had indeed changed its stance on the budget surplus, as a consensus emerged that a surplus was not appropriate under the then prevailing conditions in Indonesia, and actually shifting their position from their stance in November (IMF, 2003: 67). The revised position was reflected in the second Letter of Intent (LOI) agreed in mid January 1998, which provided for a relaxation of the fiscal stance from the originally targeted surplus to a deficit of 1% of GDP for fiscal year 1998/99.

Adding to the confusion, and showing the lack of comprehension of the severity of the crisis both within the IMF and the Indonesian authorities, was projections on growth. The November IMF program projected growth of 5% for 1997/98 and 3% for 1998/99. In the January program the 1998/99- growth projection was revised and reduced to zero, while in reality the 1998/1999 GDP actually declined by 13% (IMF, 2003: 65).

The rupiah continued to depreciate despite all the efforts and support from the IMF and donor countries. Direct intervention on the market by Bank Indonesia, with support from Japan and Singapore in equal amount totaling \$ 10 billion, only managed to lift the rupiah for a short while. The market swallowed the money without any lasting effect on the strength of the currency.<sup>11</sup> Many observers also counted the rumors of the President's illness in early December as a factor that drove the rupiah down, as it increased the atmosphere of uncertainty. Increasingly frequent riots in various parts of the country directed at the ethnic Chinese community further weakened business confidence. By end-December, it was evident not only that the IMF-supported recovery program had failed but also that in Indonesia the crisis was worst in the region. The rupiah had depreciated beyond any of the other East Asian currencies that experienced regional contagion, and it was continuing to fall (IMF, 2003: 15). By January the currency had reached new lows of around 9,000 to the dollar in early January and 12,500 by the end of January.

### *Guerrilla war*

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<sup>11</sup> The intervention was regarded as one of the several policy failures of both the Indonesian government and the IMF that many experts including those within the IMF have later observed (see IMF, 2003).

Amidst the worsening situation in early January 1998 the IMF sent a team to resume talks with the Indonesian authorities to revise the November program. The IMF team was joined by Stanley Fischer, the First Deputy Managing Director of the IMF. Around the same time high-ranking official from donor countries, such as US Deputy Secretary of Treasury Lawrence Summers visited Indonesia, indicating the heightened concern of the international community for the worsening financial crisis and the importance they assigned to resolving the crisis. Under strong pressure from the IMF Executive Board, the IMF staff focused the program on structural reform measures with greater specificity and a more definite timetable. The World Bank's representative in Jakarta was assigned the task to design the conditionality on structural reform in the revised program. With increased public attention on governance issues, the strategy to adopt structural conditionality was intended as a signal for the change that was deemed necessary to restore confidence (IMF, 2003: 15).

In the meantime entering the year 1998, Suharto's "conflict" with the IMF dominated the headlines. In an effort to repair the damage and to shore up public confidence, a stage was set up for a public relations show. To show the full commitment of both the Indonesian Government and the IMF to work together toward economic recovery, in mid January the second LOI agreement was signed by President Suharto and by the Managing Director of the IMF, Michel Camdessus. Although well intentioned what came out of the public relations ceremony was something close to a public-relations catastrophe for both the Indonesian government and IMF. The media showed Camdessus folding his arms and was seen by the public as projecting a superior attitude toward the President.<sup>12</sup>

The January 1998 LOI contained what was known as the 50-point plan. The 50 points included greater central bank independence, withdrawal of tax privileges for the national car project, the elimination of cement, paper, and plywood cartels, the withdrawal of support for the aircraft industry, and other governance and structural reforms. What was extraordinary in the event was that the final content of the LOI was decided not between the

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<sup>12</sup> This attitude although perfectly normal in western society in Indonesia was received as demeaning to the dignity of the President, therefore inadvertently demystified the president in the eyes of his own people. The fact that he had to endure such humiliation might be one other factor adding to the growing sentiment in the society of the fallibility of Suharto, who had always been regarded as an infallible strongman.

Indonesian authorities and the IMF staff as normally done, but directly in a meeting between the President and the Deputy Managing Director of the IMF, Stanley Fischer. Surprising even his advisers the President agreed to sign the whole package as presented by the IMF. Some read this unusual chain of events surrounding the signing of the January 1998 LOI as a signal of the growing distrust of the President toward his economic team. In private conversations he often expressed his exasperation at the worsening economic conditions despite all the efforts undertaken. He believed that he had given the economic team the trust to cope with the crisis and had agreed to many of their proposals, yet the economy continued to slide.<sup>13</sup> The President then seemed to consider it necessary to take control of the efforts at recovery and put himself directly at the helm. As the economy continued to collapse, in late January 1998, President Suharto established a Council for the Stabilization of Economic and Financial Resilience (DPKEKKU), chaired by the President himself. The members of the Council included economic ministers and representatives from the private sector, with the venerable Presidential Economic Advisor Widjojo Nisitastro serving as the Secretary General. The Council's task was to draw up a coordinated and comprehensive strategy to deal with the crisis.

The January IMF program was designed to restore confidence in the government, by showing that the government was ready to break with the past. However, although it was extensive in outlining structural reform programs with a specific timetable for implementation, it did not include a clear agenda to deal with bank and corporate debt restructuring, which lied at the core of the crisis. At this point the crisis had clearly become systemic. It was only at the end of January that a bank restructuring strategy was unveiled, which included the introduction of a blanket guarantee on bank liabilities and the creation of an Indonesian Bank Restructuring Agency (IBRA/BPPN) to take over banks facing liquidity problems.

The frantic efforts by both the government and the IMF failed to halt the collapse of the exchange rate. The public row with the IMF reached a new peak after the government seriously considered adopting a currency board system (CBS). With the currency in virtual free fall from December through January, Indonesian business interest close to the President, supported by certain officials in the Finance Ministry who were close to the first family, initiated the idea and even invited an academic

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<sup>13</sup> In private discussions he had complained not only about the competency but also the sincerity of some of his economic advisors.

authority on the subject, Steve Hanke, to advise the government on adopting the system (IMF, 2003: 72). Although the system has been practiced in a number of countries, the IMF<sup>14</sup> and most of the economic ministers<sup>15</sup>, and advisors to the President were against adopting the system because it was too risky in the existing condition of Indonesia, with its weak banking system and the absence of respect for the rule of law.<sup>16</sup> The President, however, desperate to find a quick fix to the exchange rate problem, had developed enthusiasm for the CBS. In February the President publicly introduced the idea. He made it more official in his accountability speech to the People's Consultative Assembly (MPR) on March 1<sup>st</sup>, 1998, in which he mentioned that the government was seriously and cautiously considering the possibility of adopting the currency board system. With the CBS concept in his mind he spoke about an "IMF plus" strategy (Suharto, 1998: 13). The ensuing protracted CBS controversy not only added uncertainty to the already confused public, but also served to distract the government from moving ahead with implementing reforms and regaining monetary control.<sup>17</sup>

The relationship between the President and the IMF and its largest shareholders by this time had come to a new low, as it became more apparent that President Suharto had no intention to adhere to the structural conditionality of the January program, although he had signed it himself. In close meetings with his senior advisers he drew an analogy of his dealing with IMF with a "guerrilla war" (see also IMF, 2003: 77). Guerrilla warfare incorporates retreat and advance in normal tactics. A retreat does not imply defeat but a temporary way out of a difficult situation. His signing of the letter of intent and its conditionality for him was just a tactical retreat, the promises were to be circumvented later when he was in a

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<sup>14</sup> Camdessus publicly declared that if the government adopted CBS, IMF would discontinue its program in Indonesia (Bresnan, 1999:95).

<sup>15</sup> There was some confusion, though, as to the stance of some economic ministers. The Finance Minister, Mar'ie Muhammad for instance, in February 1998 in front of a Parliamentary Committee session announced that the Indonesian government was going to adopt the CBS (Djiwandono, 2001: 344-345).

<sup>16</sup> Even the US President, Bill Clinton had intervened. He made two phone calls within one week to President Suharto advising him against committing to the currency board idea (Bresnan, 1999: 95).

<sup>17</sup> There was some suspicion that even if it were successful in bringing down the exchanged rate of the rupiah to the targeted 5000 to the dollar, it would only create an opportunity to some business interests, supporters of the idea, to convert their rupiah holding into US dollars (see IMF, 2003).

stronger position. By March he came out openly against the IMF, claiming that IMF conditionality was unconstitutional and infringed on Indonesia's sovereignty. On their part the IMF (2003: 79-80) blamed the President's backtracking on "the pressures likely to come from his family and some of his influential associates" and speculated that the President faced "difficulty in allowing the structural reforms to go too far because they could undermine the very basis of his regime." However the IMF also admitted that the extensive governance-related structural measures were not without its detractors. Structural conditionality had been widely criticized as having been counterproductive in dealing with a financial crisis. Severe criticism came from Paul Volker, former Chairman of the US Federal Reserve, who during his visit to Indonesia in January 1998 was reported to have criticized the IMF-imposed structural conditionality as irrelevant to financial stabilization, cynically calling the conditions on market regulations in cloves, oranges and other foodstuffs as a "recipe" (Kenward, 2000; Blustin, 2001, in IMF, 2003: 77).<sup>18</sup> The most severe attack however came from Joseph Stiglitz (2002: 89-132) who criticized the IMF for applying the Latin American case to the Asian crisis resulting in wrong diagnosis which led to the wrong ---and in Indonesia's case fatal--- prescription in the handling of the crisis<sup>19</sup>

The government's relationship with the IMF reached its nadir when on March 6<sup>th</sup>, frustrated by the lack of progress on the January program, the IMF announced that it was delaying a \$3billion infusion scheduled to be disbursed on March 15<sup>th</sup>, because the "basic conditions" of the agreement had not yet been met (Bresnan, 1999: 95-95).

Up until the time of crisis the opposition to the government had been sporadic, mostly composed of student activism and limited to certain areas and segments of society, in muted voices or grumblings among intellectual circles. The worsening economic condition and the apparent inability of the government to cope with the

crisis broke the barriers for an open and large-scale opposition toward the government. The collapse of the economy, and the backtracking on reform programs, created a climate in which more attention were focused on issues of corruption and cronyism surrounding the President and his family. Past performance of development was no longer seen as a panacea, while a growing number, including many who were in the government, were already looking for an alternative to the existing system.

### *A renewed mandate: wasted opportunity for change*

At this stage, however, Suharto still held a strong grip on the political system. It was reflected in the general election of 1997, the sixth being held under the New Order. Amidst a fierce and violent pre-election campaign, with many casualties, Golkar, the government party, garnered three quarters of the votes. Although there were allegation of irregularities and electoral violations, there was no doubt that the majority of the people still voted for Golkar, which would only mean the continuation of the Suharto government. The grumbling for reform seemed to be confined to the elites. To be sure there was already some dissatisfaction at the way the economy was going, especially at the perceived growing inequity between income groups and regions, and at the concentration of wealth and economic and political powers in a very closed group of people, i.e. the President's family and close associates. However, the common people, people who lived in the villages where the government guaranteed floor price for rice had for many years sustained the people's livelihoods, and the labor force working at new factories and various service industries were more or less satisfied with Golkar policy and Suharto. Although the election was held just a few months before the eruption of the financial crisis, and there were already some indications of an overheating economy, the general feeling among the population was optimism at the performance of the economy. Further economic targets were aimed at reduction of poverty and the graduation of Indonesia into a middle-income industrializing country around the turn of the century (Kartasasmita, 1996: 70).

Suharto was not unaware of the swelling opposition among the political elites against his government. Instead of ignoring them as usual, this time he stood up and challenged them by saying that he was ready to step down and spent the rest of his life in religious pursuit if the people really did not want him anymore. In the annual meeting of Golkar held in October 1997--after the general election in May 1997 but before the

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<sup>18</sup> Paul Volker visited Indonesia on January 10-12, 1998 at the invitation of the Indonesian government to give advice on how Indonesia could recover from the economic crisis (Djiwandono, 2001: 96). There is some speculation that the negative assessment on the IMF package coming from a person with such distinguished background may have influenced President Suharto's attitude towards subsequent IMF programs.

<sup>19</sup> Stiglitz maintained that in the highly inflationary environment of Latin America, what was needed was a decrease in demand; while in the case of East Asia, the problem was not excess demand but insufficient demand (ibid).

Presidential election by the MPR chosen by the election, in March 1998--Suharto did ask Golkar to sound out the people whether they still wanted him to lead the country. Nobody, however, would seriously challenge Suharto and "call his bluff," so not surprisingly the answer from Golkar was, yes, the people wanted Suharto to be their president again (Luhulima, 2001: 63-70). The conclusion was arrived at without actually going through the trouble of sounding out the people as was asked by Suharto himself. The Chairman of Golkar, Harmoko claimed that from his trips around the country he got the message that the majority of the Indonesian people still wanted Suharto to lead them (Luhulima, 2001: 12-17, 70).

On March 11<sup>th</sup>, 1998 Suharto was indeed re-elected for another five-year term by the MPR. He was not only re-elected unanimously; the assembly gave him a long-standing ovation. He was not only given a new mandate to lead the country, he was even given extraordinary powers to take special measures to deal with an emergency situation. The reasoning behind this was that by the time the MPR was in session, the country was much deeper in crisis.

Although among the ranks of the membership of the assembly, there was already some dissatisfaction over the government's handling of the crisis, and many held belief that the time had come for political reforms, most believed that changing the leadership at the time of crisis was not a good idea. Those within the government and Golkar who wanted reform and change hoped that the transition would be peaceful. They were of the view that economic recovery should be given priority and that drastic change would only worsen the economic situation and cause more suffering to the people. They accepted the re-election of Suharto as the least worst among bad scenarios, and hoped Suharto would embark on reform, which in private conversation he had indicated he would do after the re-election. He even hinted that he would step down in two years, and hand over the government to the younger generation. What he actually had in mind was not clear but his words were promising enough to give some hope for a peaceful transition to a new era.

What could have been 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. The election of BJ Habibie as Vice President was met with a negative public reaction inside and outside the country. Habibie was blamed by his critics for his part in contributing to the crisis with his "grandiose schemes" of technological advancement in Indonesia and large-scale projects that had cost the government billions

of dollars, which according to many economists had little economic benefit. But most damaging, resulting in further erosion to the diminishing support for Suharto, was the appointment of his daughter<sup>20</sup> and close associates of the family to the new cabinet.<sup>21</sup> These appointments to many observers indicated two possible states of mind of the President; (1) his self-confidence had been inflated by the re-election, and (2) the circle of people he trusted had become narrower. With the establishment of the cabinet the opposition gained a new rallying cry, and received sympathy from more people, even from those who would normally support the President.

### *Efforts at economic recovery*

Meanwhile, ignoring the controversy surrounding the election of the Vice President and the appointment of some cabinet ministers, the new Coordinating Minister for the Economy immediately set out to address the economic problems at hand. The President appointed the Coordinating Minister as Executive Chairman of the Economic Stabilization Council (DPKEKKU).

In the first meeting with the economic ministers under his area of supervision the Coordinating Minister for the Economy outlined the first order of business for the new economic team, with special attention given to: a) repairing the relations with the international community i.e. the international financial institutions and donor governments who had previously been critical at the way the government handled the crisis, and b) restoring market confidence. The two were recognized as tightly intertwined. Whenever there was a signal of disagreement between the government with either the IMF or the World Bank the rupiah would immediately weaken. A critical voice coming from either of the two institutions or from officials of the G-3, the US, Japan and Germany (the more important among the G7) would shake the market. As the economic conditions became more critical, with the rupiah trading above 10,000 to the dollar, the mobilization of international support was crucial.

All the major creditor countries indicated early on to the new Coordinating Minister that they were ready to give support to Indonesia's efforts at recovery, but only

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<sup>20</sup> Suharto's eldest daughter, Siti Hardijanti Rukmana, known widely by her nickname Tutut, by that time had become a major political player, holding a prominent position in Golkar.

<sup>21</sup> One of them, Mohammad Hasan or more popularly known as Bob Hasan, claimed to have pleaded with the President not to appoint him to the cabinet because he saw already the forthcoming negative reaction; but the President persisted.

through or in cooperation with the IMF. They had entrusted the IMF with the leading role in the international community's efforts to help Indonesia in overcoming the crisis (Kartasmita, 2001: 18) The message was given to the Coordinating Minister for the Economy by Robert Rubin, the US Secretary of Treasury, in a telephone conversation on the eve of the announcement of the new cabinet on March 14<sup>th</sup> 1998.<sup>22</sup> In a subsequent telephone conversation Lawrence Summers, the US Deputy Secretary of Treasury, offered the Coordinating Minister the assistance of the US government to mend the relationship with the IMF, which had been deteriorating during the previous government. He also offered to send a senior official of the US Treasury Department to Indonesia--and would urge other important donors to do the same--to work together with the IMF to further assist the Indonesian government in overcoming the crisis. The senior officials from the US, Japan and Germany arrived within one week after the telephone conversation. They were joined by an IMF team headed by Stanley Fischer himself. The US was represented by David Lipton, the Undersecretary for International Affairs at the Department of Treasury<sup>23</sup>, Japan by Eisuke Sakakibara, the Vice Minister of Finance and Germany by Klaus Regling, a Director General in the Ministry of Finance.<sup>24</sup> Together with this high-powered group of representatives from the international community, the government's new economic team started working on an agenda for the recovery of the economy.

As it became clearer that the economy was facing a twin crisis of the banking and corporate sectors, the first priorities were directed at both the restructuring of the financial and banking system and resolving the corporate debt problem. The economic team also looked into the structural reform programs that were launched in January. The economic ministers realized that to regain public

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<sup>22</sup> This first telephone conversation between the US Treasury Secretary and the Coordinating Minister for the Economy was arranged by the US Ambassador to Indonesia, Stapleton Roy who was in Washington and was at the White House at the time he made the call to Indonesia. It was interesting to note that he was aware of who would take the responsibility on economic affairs in the new cabinet before it was even announced.

<sup>23</sup> According to Summers, David Lipton was just the right person because of his experience in dealing with financial crises in other countries, such as Mexico and Korea.

<sup>24</sup> The three officials who, in their own personal capacity, were also leading experts on international finance--Sakakibara was internationally known as "Mr. Yen--in months to come would be making frequent visits and contacts with Indonesian officials, that they earned the nickname the "Three Musketeers".

confidence at the seriousness of the government in embarking on reform, the structural adjustment programs had to be implemented

Among the first policy statements coming out of the Coordinating Minister for the Economy was on the CBS: it was no longer considered as an option. It cleared away a thorny issue that had contributed to the erosion of public confidence on the soundness of the government policy consideration and consequentially to the deterioration of the economic condition.

The government economic team immediately re-established dialogue with the IMF to work on a renewed program. In early April, barely two weeks after the installment of the new cabinet, the third Letter of Intent was agreed. The Coordinating Minister for the Economy, on behalf of the government, signed it. In a departure from past practice the economic ministers made public the whole agreement with the IMF in an open press conference and answered questions from the press.<sup>25</sup> The contents of the two previous LOI's were never made available to the public, even though the January LOI was signed in a public ceremony. The secrecy surrounding the cooperation with the IMF was the main reason behind the public confusion and suspicion of the government's motives and commitments to the reform agenda. It was becoming apparent to the economic team that to gain public support and confidence on the government's economic policies, they should be made transparent and open for public scrutiny.

In line with the priorities above, the April program departed from the January program in several ways. The fiscal stance was substantially more relaxed, as by then the extent of the aggregate demand collapse had become more obvious. The target for 1998/99-budget deficit was raised from 1% to 4.7% of GDP, to accommodate the need to protect the poor with social safety net programs, while at the same time cutting low-priority projects in the development budget. On the other hand, to cope with inflationary pressures, interest rates were sharply raised. Clearly it was a very difficult decision to make, but it was realized as the only option to regain monetary control.

Structural reforms constituted important parts of the program. All the programs were given time schedules as an instrument to monitor the progress of the implementation by the various agencies. But in contrast with the January program, this time the economic team

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<sup>25</sup> The Letters of Intent (LOI) with the attached Supplementary Memorandum of Economic of Financial Policies can be retrieved at <http://www.imf.org/external/np/loi>.

showed a determination to implement them. Most of the elements of the conditionality of the IMF assistance at that stage were actually shared by the economic team. The structural reforms were embraced by the economic team as their own. Another important aspect of the April program was the recognition of the need to protect the poor from the worst of the crisis. Even though subsidies were recognized as rent-seeking that worked against the establishment of a sound economy, subsidies on the most essential needs of the people like basic food and medicine for the poor were constituted into the recovery program, some with timetables for phase-out as the economic conditions improved. Once the various aspects of the program were in place, all government's departments were given specific and written instructions by the Coordinating Minister for the Economy to carry out the reforms within their areas of responsibility, and most importantly to abide by the timetable. The government had thus asserted its ownership of the reform program, and it was no longer viewed as just an IMF imposed program but also the government's own economic recovery program.

In subsequent discussions with the IMF it was agreed that any effort at bank restructuring should be initiated with a forceful intervention by the government on the banks. It was understood that protecting insolvent banks would only continue the bleeding of the financial system through liquidity support.<sup>26</sup> Learning from the failure of the attempts in November the year before, a consensus emerged within the economic team that any intervention by the government should be done transparently and with uniformity of treatment and should be known to the public. Considerable efforts were made to prepare the public relations, with the objective to prevent panic and bank runs and to gain the support of public opinion. The objective was to make the public aware that the closures of the banks were part of a coherent strategy to deal with the banking crisis, and it would not jeopardize their assets in the banks. Only after every detail was put in place, including the timing of the announcement<sup>27</sup>, the

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<sup>26</sup> The liquidity support had been provided by Bank Indonesia under several schemes based on the Lender of Last Resort principle. The various schemes under this principle in January 1998 were consolidated under a general title known as BLBI. By the end of January 1998, total support under BLBI had reached 5% of GDP, or close to 100% of base money. By the time the situation stabilized in mid-1998, the volume had reached 14% of GDP. Investigation by auditors later found that much of this liquidity support had been used for questionable purposes (see IMF, 2003).

<sup>27</sup> It was announced on a Friday to minimize bank run and give the public time--during weekend until Monday when the banks

[www.ginandjar.com](http://www.ginandjar.com)

economic team announced the new initiative on bank restructuring. Seven banks representing 16% of liabilities in the banking system were taken over by the government and put under IBRA control and seven other smaller banks were closed. The Coordinating Minister, Minister of Finance and Head of IBRA gave continuous press conferences, repeatedly explaining what was taking place and that all depositors would be totally protected. In contrast with the intervention in November 1997, the takeover and closures of the bank in April were carried out smoothly and with relatively manageable withdrawal of deposits. Within three weeks the withdrawal of deposits from the banks had stopped.

The economic team also strengthened the efforts to deal with corporate debt problem which had actually began in 1997 with the establishment of a team ostensibly by the private sector, chaired by a former senior minister composed of representatives from the corporate sector.<sup>28</sup> At the onset of the crisis the government policy was to distance itself from the corporate debt problem. As it became more apparent that corporate debt was at the heart of the problem that caused the crisis, the new economic team decided to give support to the private sector initiative to work out a strategy to deal with the debt problems and to negotiate with the creditors. The support however did not entail a bail out of the private sector's debt by the government but to assist in finding a solution to the debt problems that would be acceptable to both the debtors and creditors. With the government supporting the efforts, the creditors were less reluctant to work out a solution with the debtors.

The resumption of negotiation with the IMF was done with conviction that a departure of past practices was necessary if the economy was to regain market confidence. The negotiation was always tough and excruciating, as both sides worked hard to design a program that could jump-start a recovery process. It was not always easy for the economic team to get the reform program through the various government agencies. They also had to go around the President's reluctance at some of the reform agenda

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opened again--to digest the information given by the government.

<sup>28</sup> Heading the team was Radius Prawiro, who had held several cabinet posts in previous Suharto's government, the last one being the Coordinating Minister for the Economy between 1998-1993. Serving as focal point was the secretary of the team Anthony Salim, representing the business community. In the last Suharto's government he was appointed as the Secretary General of the Economic Stabilization Council (DPKEKKU)

and had to overcome the resistance of some ministers whose attitude was still rooted in the past.

The determination of the economic team to carry out its economic recovery agenda bore results. 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 the May troubles occurred (IMF, 2003: 69). It appeared that the government had moved decisively to regain monetary control. The improving economic situation had provided hope that given time and diligent efforts, the crisis was surmountable. The optimism caused by the improving economic situation and return of confidence was such that the President had decided to attend the meeting of leaders of developing countries (G-15) in Cairo, for a trip that would have taken him out of the country for ten days.

### *The flash point*

The progress toward economic recovery however was abruptly set back when it was overtaken by political events. The elements for a political showdown between President Suharto and the reform movements were building up, as opposition against his rule was gaining momentum and spreading all over the country. The flash point was reached when the government announced a rise in fuel prices, with the accompanying consequences of a rise in public transportation fares.

One of the hardest issues in the negotiation between the economic team and the IMF was on fuel subsidies. In principle it was agreed that fuel subsidies as any other subsidy should gradually be reduced and eventually eliminated. The question was how gradual, and what the right timing was. When the economic team met again with the IMF team at the end of April, the timing for the increase in fuel prices was discussed again. The IMF demanded an immediate increase, at the end of April or early May. The government negotiating team insisted that it should be delayed until July, to give time for the economy to recover further, and when schools were in recess, to reduce the risks of confrontation between the students and security forces and avoid casualty and damage that might result from such confrontation. The government team finally agreed that the measure would be taken sometime around end of June, giving them time to continue the efforts at, and to consolidate, the gains of the economic recovery. It was tacitly understood within the economic team that if by that time the economic recovery had not been strong enough to bear the burden of price increases, they would consider proposing to the IMF to

postpone it again until the appropriate time. However when the compromise was reported to President Suharto for his approval, against the advice of his economic ministers he decided to raise the fuel prices and public transportation fares immediately. His explanation for the astonishing decision was that if fuel prices had to be raised, why postpone it; for him delaying it was equivalent to avoiding the issue and deceiving the people.<sup>29</sup> The President had in fact embraced the initial IMF stance on the issue, even though the IMF had already relented and agreed to a later timing. The decision to raise the fuel prices was announced on May 4<sup>th</sup> to be effective the next day. A few days after making the decision, on May 9<sup>th</sup> the President left the country for Cairo (Luhulima, 2001:110). One could only speculate that this act of bravado on the part of the President was founded on: a) the misguided assumption that he still had solid political support, and b) overconfidence in the strength of the economy.

The fact was that although the economy had made some advances, it was nowhere near recovery. Indeed it was still in a very fragile state. Suharto's political support had also been vastly eroded as the public, including many among his long time supporters--- politicians, technocrats and professionals, who---because of his intransigent attitude towards reforms--had become disillusioned of his continued rule. That Suharto had no intention to undertake reforms as the political and economic situation demanded was made clear in various statements given by him and by his close political and military assistants on different occasions. One such occasion was on May 1<sup>st</sup>, when he addressed leaders of political parties and factions in the parliament, reiterating that he was bound by the State Guidelines mandated to him by the MPR. Any change would have to proceed in accordance with the constitution, which was believed to mean that it had to wait until after the next election which was five years away. His address to the political leaders on this occasion was taken by the public as a sign of his intention to maintain the status quo.

Various efforts were actually made by many leading figures in the government, both military and civilians, to have dialogues with the students and the leaders of civil society over the government efforts to improve the political and economic condition. One such attempt at dialogue was held at the initiative of the Commander of the Armed Forces, General Wiranto, on

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<sup>29</sup> The meeting with the President on the question of fuel price was attended by the Coordinating Minister for the Economy, the Minister of Mines and Energy, Kuntoro Mangkusubroto, the Minister of Transportation, Haryanto Danutirto, and Professor Widjojo Nitisastro, the President senior economic adviser.

which occasion he invited students leaders and intellectuals from across the country to meet and have an open dialogue with ministers from both the economic and political portfolios. The economic ministers, led by the Coordinating Minister for the Economy, answered many questions on economic policies, while political questions were answered by ministers from various departments and the military leadership. These dialogues had very little effect in diffusing the tension because they fell short of the expectations of the reform-minded intellectuals and students (Luhulima, 2001: 85-86).

While opposition to Suharto's continuing rule was growing after his re-election, it had yet gathered enough strength to bring down the government. Students were demonstrating in cities around the country, but political leaders did not trust each other enough to be able to form a unified challenge against the government. Except for diehard opponents that had been criticising the Suharto's rule for years, the elites and leaders of the various reform movements were still wary of Suharto's power, because of the support that he ostensibly still enjoyed from the military. Amien Rais who was the most vocal in his statements for reforms, had risen to become the central figure against continued Suharto's rule, but being a leading member of ICMI he was associated with Habibie, and thus was regarded with suspicion by other opposition figures. Abdurrahman Wahid true to his Machiavellian personality played both sides; he, who in the past he had been openly promoting Tutut--the daughter of Suharto-- as the future leader of Indonesia, continued to maintain political ties with, and curry favour from, the first family (Van Dijk, 2002: 43). Megawati Sukarnoputri, who politically suffered the most under the New Order political regime, did not offer her leadership to the reform movement. Hence, up until the first week of May, the physical (in contrast with intellectual or academic) opposition against Suharto's continued rule came mostly from the students.

The hike in fuel prices changed everything. It affected people of all walks of life, in particular the urban population. As a result, the students' activities gained more sympathy from ordinary households. The price hike became the rallying point for student protests around the country. Demonstrations were more intense and the responses from the authorities were getting more violent. The fire that would torch the political stalemate was sparked on May 12, in an incident that was to be remembered as the *Trisakti tragedy*. The students of Trisakti University, a private school, took to the street to protest against the rise in fuel prices. At the end of the day, four students were killed by gunshots. Although some police officers in charge of the security forces in the field

during the incidents had been brought to trial, there were many speculations as to who really fired the shots and under whose orders. But, whoever was behind the killings of the students, they had succeeded in creating a political turmoil from which the government would never be able to recover.

The flash point was reached on the 14<sup>th</sup> of May, in what was then known as the *May riots*. The riots actually started the evening of the day before, after the emotionally charged funeral of the martyred students, when groups of people took to the streets in central Jakarta's commercial districts looting and rampaging. The mobs grew bigger and spread out to other areas, vandalizing buildings and stores, burning cars and looting shops. But it was on May 14 that the riots reached its peak in terms of magnitude and violence. Now the mob did not confine their rampage to the commercial areas, but spilled out to housing areas, attacking people in their homes and robbing and burning their houses. The target of the atrocities was the ethnic Chinese. On the same day many other cities in Indonesia also were faced with similar riots although with differing levels of violence.

The May 1998 riot had a particular significance aside from the intensity of the violence in that, although Indonesia had experienced many instances of rioting against the Chinese ethnic minority, in the past they were mostly limited to commercial areas and looting of shops owned by ethnic Chinese merchants, and very seldom involved attacks on the individuals and almost never their homes. Thus it also created further speculation on who were really behind the riot. Part of the suspicion was directed at the military, as despite the mounting tension the city of Jakarta was regarded as being under protection, and incidentally on the day of the riot the leadership of the military were not present in the capital, but were attending a military ceremony in a city in East Java. There were also allegations that there were gangs of people directing the mob in the rampaging (Emmerson, 1999: 309-312).

The riots had devastating effects on the Suharto government. Economically, the social unrest and the violence against the ethnic Chinese community and businesses resulted in more capital flight, already a feature of the financial crisis, and the breakdown of the distribution system in which the ethnic Chinese merchants played a dominant role. This ruined the fledgling efforts at recovery and plunged the economy further into crisis. Politically, it showed that the government was in disarray. It then set the stage for the endgame of the political drama.

### *The final curtain*

In Cairo the President was informed of the turmoil that took place at home. Vice President Habibie, after conferring with the Coordinating Minister of the Economy suggested to the President that the price hike be reconsidered. The President acquiesced and gave the approval to reduce the fuel price increases.<sup>30</sup> The decision was announced on May 15<sup>th</sup>, after the President returned from Cairo. The concession did not affect the political situation, as by now the focus had shifted to the shootings of the Trisakti students and the two-day riots. On the contrary, it signified the growing weakness of the Suharto government.

In the meantime, during a meeting with the Indonesian community in Cairo, Suharto made a statement to the effect that if the Indonesian people did not want him anymore, he would not stay in power. The news that reached Indonesia was somewhat distorted creating the impression that Suharto was ready to resign. The news was widely welcomed. Among the first to respond was the Speaker of the Parliament who said that he would convene a meeting to discuss the consequences if the President did resign. Upon his return however, on May 16<sup>th</sup> the President through the Minister of Information gave a clarification of his statement, saying that he had not said that he was resigning, but only reiterated what he had said before, that in case the people no longer had faith in him he would retire to a life of a sage, devoting the rest of his life to religion and family. The President also welcomed political and economic reform, but he reminded that it all had to go through the constitutional process (Luhulima, 2001:122-123).

Responding to the constitutional challenge, the students poured into the parliament building to pressure parliament to act. The President had stated that he would respect the decision of the people and any change should be done in accordance with the constitution. –Moreover, the people were represented by the MPR, and in the absence of MPR sessions, by the parliament. –Therefore, the pressure was now directed at the parliament. The leadership of the parliament responded by going to the President on May 16<sup>th</sup> to convey the aspirations of the people for total reform and the drive to hold a special session of MPR to constitute the reforms, including the

resignation of the President. As usual the President was persuasive in the meeting, convincing the political leaders of his intention to accelerate reform, promising to revise the political laws, and to reshuffle the Cabinet. This was understood to mean that he would replace ministers who were regarded by the public as symbols of cronyism. But he was not in favor of calling a special session of the MPR. He also hinted that he would not tolerate threats to stability and law and order, and if the situation called for he would not hesitate to exercise the extraordinary powers given to him by the MPR to maintain stability and keep law and order (Gafur, 2000: 79-81). The message that was later given to the public after the meeting had been softened but clearly was not what the students wanted to hear. By May 17<sup>th</sup> the students had practically occupied the parliament building.

The call for reform and for the resignation of the President grew louder and was joined by a wider circle. Intellectuals and academics who were mostly silent up to this time, now came openly to support the demand of the students for reform, notably those from the University of Indonesia which had supplied the government with its technocrats and in-house economic experts since the beginning of the New Order.<sup>31</sup> They were also joined by retired military officers, some of them former comrade in arms of the President, and even by organizations that were supposed to be his stronghold, such as KOSGORO an organization within Golkar, KNPI the youth organization also aligned with Golkar, and ICMI, the Muslim Intellectual Organization that was founded and chaired by Vice President Habibie with the blessing of the President. At the parliament building the students were joined by

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<sup>31</sup> Around that time, a group of senior economists initiated an informal meeting with the Coordinating Minister for the Economy. Most of them were professors from UI, all of them had earlier served in the New Order government in various cabinet posts including the governorship of Bank Indonesia. In fact many of them were known as the “Berkeley Mafia”, and the architects of the New Order economic policies. They offered their opinion that for the sake of the country and the economy President Suharto had to step down. They suggested that as President Suharto was heavily dependent on the performance of the economy to maintain his rule, should the Coordinating Minister resign, Suharto’s government would fall. The Coordinating Minister responded that he was not yet sure it that was the right idea at the right time, because the political turmoil that would follow could bring the economy into a deeper crisis. But as they persisted with their arguments, the Coordinating Minister promised to consider their suggestion very seriously, but added that as he could not act alone, he would have to discuss the matter with his colleagues in the cabinet, which he later did.

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<sup>30</sup> The Coordinating Minister for the Economy—who at that time was in Taiwan to negotiate rice assistance in light of the harvest failure caused by the draught—informed IMF Managing Director Michel Camdessus by phone about the decision, to prevent public repudiation of the policy by the IMF that could create negative perception of the market.

leaders of the opposition and reform movements—such as Amien Rais dan Megawati—who gave encouraging gestures and speeches. Day by day the sympathy from the public grew as demonstrated by the logistical support given to the students in the form of food, water and transportation. The parliament building had now become the main stage in a political power play.

The support from the military, which up to now had been the foundation of President Suharto's political power, had also begun to crack. Although the military as an institution remained loyal to the President, the Supreme Commander of the Armed Forces according to the constitution, one after another influential officers were making encouraging statement towards the students. Some regional commanders had in fact frequently met with student leaders and other leaders of the reform movement to discuss the issues. Their purported mission was to diffuse the potential clash between the students and the authorities but the contact had helped to make the military elites aware of the gravity of the situation and the need to find a way out of the dangerous stand off. They were still bound by their soldier's oath and would never let the President be harmed physically, but they also recognized the need to avoid the use of force. In fact, they had helped the students to get to the Parliament building by providing transportation and escorts for them. Some units even openly sympathized with the students, especially the Marines. Thus it was reasonable to assume that conflicts within the armed forces might occur if military means were to be used against the students.

Under the intensifying pressure from the students who were converging into the parliament building in growing numbers, the leadership of the Parliament finally decided to act. On May 18<sup>th</sup> the Speaker flanked by all the Vice Speakers of the Parliament---reflecting the composition of the factions in the Parliament--- announced their collective opinion that Suharto had to resign, and that they were sending a message to the President asking for an audience for the next day. Commenting on the statement, General Wiranto, the Commander of the Armed Forces, who was formerly an *aide de camp* to the President, tried to down play its political significance by saying that it was the personal views of the persons concerned---one of them in fact representing the Armed Forces faction in the Parliament--- not that of the Parliament, as it was not based on the decision of the plenary session of the House, and therefore not binding (Luhulima, 2001: 150-151). On the next day the leadership of the Parliament met with the leaders of all the factions of the Parliament. A consensus was reached in the meeting lending support to the statement made by the Speaker and Vice Speakers of the

Parliament the day before. The die had been cast. President Suharto had lost his formal political power base that had kept him in power for more than three decades. However at that stage the President was not ready to quit.

Within the Cabinet, some ministers realized that the status quo could not be maintained any longer. The country had been stagnating. The economy was in chaos after the May 14<sup>th</sup> riots and had practically come to a standstill. Prices were soaring as the distribution system was incapacitated in the absence of the ethnic Chinese merchants. Public transportation was not functioning because of the roadblocks and the fear of another wave of turbulence. Workers could not get to work. Ships were stranded in the harbors because they could not unload their cargo. Banks, shops and offices were closed. To make matters worse there was some indication that the President was considering to declare a state of emergency and use extraordinary powers to deal with the opposition. Rumors spread about a potential Indonesian version of the Tienanmen massacre.

Word leaked out that Suharto had given the authority to the Commander of the Armed Forces, General Wiranto, to exercise extraordinary powers. It was later discovered that President Suharto had indeed on May 18<sup>th</sup> issued a Presidential Instruction appointing the Minister of Defence/Commander of the Armed Forces as Commander of National Vigilance and Safety Operating Command (liberally translated from: *Komando Operasi Kewaspadaan dan Keselamatan Nasional*). As his deputy in that capacity was appointed the Chief of Staff the Army, General Subagyo. This Presidential Instruction, probably the President's last gambit, however was never implemented. (Wiranto, 2003: 82). Had it been carried out one could only imagine the consequence of the confrontation between the security forces and the students, and the masses supporting the students.<sup>32</sup>

After reviewing the situation among themselves, the cabinet's most senior ministers: the four Coordinating Ministers, decided to go to the President to advise him of the seriousness of the political and economic situation and the urgency of breaking the political stalemate. They would argue for a peaceful political solution and restraint

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<sup>32</sup> The President had earlier offered the responsibility to General Subagyo, who declined the offer. It could be taken as an indication that the army had doubt about using power to resolve the political stalemate. According to Wiranto, when the President gave the letter of instruction to him, the President just said " whether this letter is going to be used or not, it is up to you" (liberally translated). At that time Wiranto's response was that he would study it (Wiranto, 2003: 83).

from force. They met the President on the night of May 18<sup>th</sup>. Probably sensing what the ministers had come to see him about, he gave them little chance to talk much as he dominated most of the discussion. He projected an air of confidence although one could sense through the monologue that he sounded defensive. At the end of the meeting the ministers managed to get the message across to the President albeit in a more subdued tone than they intended.

Having lost control of the political situation and left with few options, President Suharto turned to the leading figures among Muslim moderates for support. Although they were more sympathetic to him than the hardliners like Amien Rais they were clearly not in the position to offer any help to the beleaguered President to remain in power. The group led by Nurcholish Madjid, a moderate Muslim scholar<sup>33</sup> attempted to create a compromise and convince Suharto to sign onto a framework enabling him to resign with honour—Suharto would promise to resign “as soon as possible” but left the date unsaid. Amien Rais and his reform allies criticised the effort; they wanted Suharto’s immediate resignation.

On May 19<sup>th</sup> after meeting with the moderate Muslim leaders President Suharto told a press conference about calling an earlier general election that would facilitate his earlier resignation, of repealing the political laws that had been the target of many of the reformers’ demands and the creation of a Reform Committee. He also stated his intention to reshuffle the cabinet and form a Reform Cabinet. He made one statement however, that would strain his relation with Vice President Habibie. Suharto bluntly doubted Habibie’s ability to lead the country at the time of crisis. It was one of the several reasons he gave on why he would not to resign at the time.

Meanwhile Amien Rais had called for a march on May 20<sup>th</sup>, the National Awakening Day, and for a mass prayer meeting at the National Monument, which is located just in front of the presidential palace. His call drew support from various organizations. In anticipation of the events of the day, people remained in their homes. The streets around the palace and leading to the President’s house were heavily guarded and blockaded. Fearing another rampage in which they would again be the targets, many ethnic Chinese had earlier fled the country. They were joined by foreign residents who were not sure of their

safety. On May 20<sup>th</sup> Jakarta turned into a ghost town. Except for soldiers patrolling and guarding strategic intersections and manning the roadblocks, the roads were deserted. At the last minute fearing it could lead to bloodshed Amien Rais called off the gathering (Singh, 2000: 92; Luhulima, 2001: 222-224). Jakarta however remained a tense city, as the confrontation between the security forces and the students, who already numbered tens of thousands gathering in the parliament buildings, and had become impatient and were ready to move to the palace and the residence of the President, was only a matter of time and waiting for a spark to explode

On the morning of the 20<sup>th</sup> several ministers and leading figures from the Indonesian business community came to see the Coordinating Minister of the Economy expressing their concern and asking for guidance. They discussed the prevailing situation and the nightmare of a large-scale confrontation between the students and the security forces, which now seemed to be unavoidable, which would result in a large number of human casualties and wreak unimaginable damage on the economy. The resulting turmoil might lead to a social revolution if it was joined by the urban masses that were already suffering because of the economic crisis and the mounting political tension. The spectre of Tienanmen loomed large in their discussion. The Coordinating Minister then decided to call a meeting of the economic ministers in the afternoon.

All the ministers who held economic portfolios, except three, were present.<sup>34</sup> They reviewed the economic situation and the political complications. The Governor of the Central Bank reported that the Central Bank had been closed for two days because the employees could not come to the office. He speculated that if the condition continued for a week, without a functioning Central Bank the economy would collapse. The other ministers also reported that their departments could not perform their tasks for similar reasons. They reached a consensus that the President should be made aware of the grave situation. They would advise the President that if a political solution could not be reached within a week the economy would collapse. They would also offer their opinion that forming a new cabinet would not solve the problem. And in the case that the President wished to go ahead and form a new cabinet they would unanimously decline to join in the new cabinet. However they would remain at their position in

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<sup>33</sup> Nurcholis Madjid, a former chairman of the most influential student’s organization the Islamic Student Association (HMI), was known for his statement “Islam, Yes, Islamic Party, No” (Uhlen, 1997, 75).

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<sup>34</sup> Those who were absent: the Minister of Environment Yuwono Sudarsono who was ill and in hospital, the Minister of Industry and Trade Bob Hasan who said that he could get not through the security blockade and the Minister of Finance Fuad Bawazir who could not be reached.

the present cabinet until a political solution was achieved. There was an ensuing debate on how this message should be conveyed to the President. They considered several options, whether all the ministers should see the President and express the views, or the Coordinating Minister alone should go to the President to convey the message. It was finally decided that the message should be put in a letter to the President signed by the ministers.<sup>35</sup>

While the ministers jointly drafted the letter, the Coordinating Minister for the Economy invited the three other Coordinating Ministers to come to his office. He informed them of the consensus reached among the economic ministers and invited them to join to make the appeal stronger. They declined the suggestion, ostensibly out of loyalty to the President or most probably because they were unsure of how the President would react. Indeed there was a risk that with the possibility of the President declaring an emergency situation and with extraordinary powers in his hand the President might declare the ministers' initiative as an act of insubordination, or worse subversion. The letter was signed by 14 of the ministers who were present at the meeting.<sup>36</sup>

The Coordinating Minister for the Economy also informed by telephone several other leading government and political figures of the initiative taken by this group of ministers, notably the Vice President (BJ Habibie), the Speaker of the Parliament (Harmoko), the Commander of the Armed Forces (General Wiranto), Professor Widjojo Nitisastro, the economic advisor to the President, and the President's daughter who held the post of Minister of Social Affairs (known by her nickname Tutut). Habibie's response was that he was going to see the President in the evening and he would take the matter up with President. The purpose of informing the President's daughter was to have her inform the President of what transpired among the economic ministers so the President would not be caught by surprise and would be mentally prepared to receive it.

There was another development on the same day: the failure to establish the Reform Committee. A list of 45

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<sup>35</sup> To ensure that the President received the letter directly and without bureaucratic delay, the letter was to be delivered to the President's residence and handed over to the President's personal Aide de Campe on duty by a special courier from the office of the Coordinating Minister.

<sup>36</sup> Two who declined to sign were: the Governor of the Central Bank Sahrir Sabirin because of his supposedly-nonpolitical position and the Minister of Transmigration Ary Mardjono, a retired Major General, who at that time was also Secretary General of Golkar.

prominent figures had been drawn up to become members of the Reform Committee, which was supposed to be announced on May 20<sup>th</sup>. After the intention to form the committee was made public on the 19<sup>th</sup>, the President's staff started to get the consent of the people on the list to be made part of the Reform Committee. It turned out that most on the list were unwilling to participate in the committee (Singh, 2000: 93; Luhulima 2001: 17)). Public opinion was against the establishment of the Committee, which was suspected by many as an effort to buy time for the President and to find a way out of an immediate resignation.

Another important development occurred on the evening of May 20<sup>th</sup>. In the evening the President received several visitors, among them Vice President Habibie. During the meeting President Suharto indicated that he was ready to resign and hand over the Government to Habibie. They discussed the time frame and the formation of the new cabinet. It was decided that President Suharto would announce the formation of the Reform Cabinet on May 22<sup>nd</sup>. Then on the 23<sup>rd</sup> he would announce his resignation and the new president would be installed on the 25<sup>th</sup>. Suharto told his Vice President that after he had taken over the presidency he could reshuffle the cabinet to his liking (Makka, 1999: 270). Then Habibie raised the question of who would serve in the new Cabinet, because most of the economic ministers had indicated in the letter to the President that they would decline if asked to serve in a new Cabinet under President Suharto. The impression Habibie had was that at that time Suharto had not heard of the letter, and hence was still unaware, until Habibie told him, of the stance of the economic ministers with regard to the formation of a new cabinet and the political resolution of the conflict. According to Habibie, the President was very disappointed at the news and asked him to persuade the Economic Coordinating Minister to withdraw the letter and to serve in the new Cabinet.<sup>37</sup>

Upon leaving the President's residence Habibie called the Coordinating Minister and informed him of the meeting he just had with the president, giving emphasis on the President's decision to resign and his request for the letter to be withdrawn. Habibie suggested that the economic ministers met with him at his house immediately. The meeting was convened within one hour after the meeting with the President. The Vice President also invited the other three Coordinating Ministers to

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<sup>37</sup> Habibie shared this part of his conversation with the President with the Coordinating Minister for the Economy by phone and repeated it again to the ministers meeting at his house later in the evening.

attend the meeting. At the meeting Habibie briefed the ministers of his discussion with the President and the intention of the President to resign. He conveyed the message of the President asking the economic ministers to withdraw the letter. A heated discussion on this subject ensued as some argued that they were not really convinced that the President was really going to resign, and in case he did not resign the ministers would find themselves in a position that they did not want to be. As the formation of a new cabinet was essential to the resolution of the political impasse, a compromise was reached, in that Habibie would inform the President to disregard the letter without actually withdrawing it, so that the President could proceed with his plan to end the political crisis.

Habibie tried to call the President's State Secretary, to inform the President about the results of the meeting. The first call failed to reach him as at that time he was with the President. On the second call, when he was connected, Habibie informed and asked the State Secretary, Saadillah Mursyid, to report to the President the result of the meeting with the economic ministers. However, in a subdued voice Mursyid answered that it was no longer relevant because everything had changed. At first Habibie did not really comprehend what Mursyid was saying and insisted that he explain to the President what was accomplished in the meeting. But Mursyid said that President Suharto had decided to resign and at 9 o'clock the next morning would transfer power to the Vice President<sup>38</sup> (Makka, 1999: 272-274; Luhulima, 2001: 20&230).

On May 21<sup>st</sup> in a brief ceremony at the presidential palace, President Suharto resigned his presidency with a short statement, and Habibie was sworn in by the Chief Justice of the Supreme Court as the third President of the Republic of Indonesia. The historic moment signified the end of Suharto's era and the dawn of a new, albeit equally uncertain one.

### Explaining the Demise

Before attempting to answer why the Suharto government fell after 32 years of continuous and

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<sup>38</sup>After the telephone conversation ended Habibie informed the ministers who were still gathered in his house of the surprising development, who then congratulated him. After Mrs. Habibie was informed and joined the gathering, at the suggestion of the Coordinating Minister for the Economy a prayer was said led by a staff at Habibie's office who was also the Deputy Secretary General of the Indonesian Assembly of Muslim Scholars (*Majelis Ulama Indonesia*), Jimly Assidique.

seemingly unshakeable rule, and not only fell but crumbled with relative ease and little cost in terms of human life, one needs to answer one basic question: what kept the regime in power for 32 years? What accounts for the regime's resilience in the face of at least three major economic recessions before 1997? To what extent are external macro economic and geopolitics responsible? How much should be attributed to the character of "the Smiling General" whose visage is still synonymous of the New Order? What framework and benchmarks would serve best for a complete understanding of the rise and fall of the Suharto regime?

Before attempting to answer these questions, one may find the following a useful starting point: what is the nature of the Indonesian system of government under the New Order, and how did those in power justify their rule? After outlining the theoretical and real power structures underlying the New Order, we will then evaluate to what extent Indonesia was a democracy using the different benchmarks that academics have formulated. Having established a sense of the nature of the system, we will attempt to explain its resilience and eventual fragility.

### *The Political System under the New Order*

Many scholars believe that the New Order regime relied heavily on a set of structures of ideas based on Indonesian cultures, especially Javanese culture, with a common contention that it is incompatible with western ideas of democratic government. Mulder, for instance, sees the paternalistic form of political leadership explains much of how society is seen and experienced by most Javanese (Mulder, 1995: 53). Uhlin however is not satisfied with the cultural explanation although he would not outright discount it. He believes that relying on such cultural analyses would only be problematic. Citing various studies he maintains that there are also deep-rooted cultural values of social justice, equality, and grass-roots opposition against unjust leaders, that are not only complementary to democratic values that do not automatically imply authoritarianism as an accepted cultural norm in Indonesian society. Uhlin argues that the use of more modern concepts and deliberate effort to shape public support for certain political beliefs are the more likely elements of the New Order political construct. Central to his argument is the concept of an "integralistic state", which was embedded in the Indonesian Constitution of 1945 (Uhlin, 1997: 52-55). The "integralistic" approach with the corresponding concept of *kekeluargaan* or family values, emphasizes the need to harmonize common interest and individual interest, straddling the communist concept

of state predominance and liberal democracy's individual preeminence. One of the more esteemed values in this concept is *gotong-royong*, people working together harmoniously and cooperating voluntarily in the performance of communal tasks as well in helping each other, manifesting the spirit of individual sacrifice for the common good. In adapting this socio-cultural norm into a political concept, the New Order actually carried over the "guided democracy" principles of the preceding regime, even if not by name, and via a more refined and subtle method. Under the New Order, the leader no longer derived his mandate to rule and lead from the "revolution" or some other abstract idea as in the previous regime, but ostensibly from the constitution, through regular election.

Uhlin (1997: 55-56), like many other authors on Indonesian contemporary politics, also observes that the negative image of parliamentary democracy that was adopted in the 1950s served to delegitimize western democratic ideas, both during the Old Order and the New Order. Indonesia's contemporary history books and political discourses characterize the period of liberal democracy by ethnic and religious conflicts, regional rebellions, political instability, economic hardship, and overall chaos. On the other hand, the "guided democracy" period was also discredited because of its erratic economic policies and later because of its association with socialistic and totalitarian thinking. The attempted *coup d'état* and ensuing civil strife in 1965-66 and, the backstabbing by the communists in 1948 -- during the war of independence, known as the "*Madiun affair*" -- made leftist political leanings anathema to the Indonesian people in general. In this political environment the communists and their ideology became "public enemy number one".

Between these two extremes of "western" individualism and so-called "eastern" collectivism, the New Order tried to define its political ideology. To this end, the New Order designed an extensive and detailed elaboration of how *Pancasila* should be applied by all citizens in their daily lives, beginning with those who held social responsibility, whether governmental- in particular civil servants--or non-governmental, through a systematic nation-wide "training" or *penataran* (avoiding the word "indoctrination" which was often used during the guided democracy era), famous with the acronym: *P4*. The practical interpretation of the state ideology functioned as the guiding principles in the day-to-day life of citizens in all layers of society. It placed great emphasis on balance and harmony, among men, between men and the state, and between men and its environment (physical as well metaphysical). By having only one uniform interpretation of the state ideology and philosophy, the New Order

preempted political conflict based on ideology, whether individualist or collectivist. In this system of "*Pancasila* democracy", the western idea of opposition was rejected, as it was regarded as an alien concept unsuitable for a nation whose political philosophy or belief is based on familial values, among which is consensus (*musyawarah untuk mufakat*) in decision making.

The nation was compared as an extended family with the ruler (the personification of the wise elder) at the top, guided by wisdom in the quest for social justice for the whole nation. In this aspect, the New Order's political creed and the Old Order's guided democracy share similarities. Where the New Order diverges was that in justifying its rule, the Suharto regime went to great lengths to establish democratic institutions such as political parties, general elections, and elected parliament. The national leaders were elected periodically, in line with the system described by the Constitution. In the process, the President was required and did give annual accountability reports to the people through the parliament, and by the end of the five-year ruling period to the assembly that elected him, the MPR.

The elections were contested by political parties, although one political party, Golkar, claimed not to be a political party but a political organization formed by and consisting of functional groups and professionals. In the beginning there were ten parties including Golkar, but later through a process of merger or "fusion" the number was reduced to three.

Now, with those political institutions in place: political parties, elections, and parliament, what category does the New Order government period fall under? The proponents of the New Order certainly claimed that it was a democratic government, admittedly not adhering to western ideas of democracy but based on its own indigenous philosophy and cultural heritage as outlined in the constitution. To its critics, especially among the intellectuals and academia, and certainly now to the general Indonesian and international public, the New Order political system at its core was authoritarian.

### *Democratic or Non-democratic?*

To what extent was Indonesia a democracy?<sup>39</sup>

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<sup>39</sup> The idea of democracy is an ancient concept, originating inreece two millennia ago, where it first took shape and was seriously put into practice. After the collapse of the system the

Democracy has been defined in a number of ways.<sup>40</sup> Huntington (1991: 5-6) identifies three approaches that emerged in the debates over the meaning of democracy in the twentieth century. As a form of government, democracy has been defined “in terms of sources of authority for government, purposes served by government and procedures for constituting government”. Arguing that the first two approaches create problem of ambiguity and imprecision, he based his analysis on the procedural definition of democracy. This concept was originally formulated by Joseph Schumpeter who defined democracy as “that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter, 1952: 269). By the time of the arrival of Huntington’s “third wave” of democratization in the 1970s, the institutional and procedural approach to defining democracies had gained almost unanimous adherence among scholars and is widely used as a basis for analyses of political systems and methods of governance.

Dahl (1971: 5) has further refined this approach<sup>41</sup> which involves two dimensions of democracy, “public contestations and the right to participate.” He postulates that modern representative democracy requires certain political institutions, the least of which are: elected officials; free, fair, and frequent election; freedom of expression; alternative source of information; associational autonomy; inclusive citizenship (Dahl, 1998, 85-86). For analytical purposes Huntington (1991: 9-10) sees the convenience in applying the definition of democracy in terms of elections as a minimal definition. He maintains

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idea was buried and took a long time to reemerge as a working system of governance in England in the 13<sup>th</sup> Century, with the signing of the Magna Charta, and developed gradually through the French and American revolutions, to the widening of the franchise in nineteenth century Europe and North America. It was only in the twentieth century that democracy became established as a widely practiced form of government, and subsequently became a near-universal commitment (seeDunn, 1995).

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<sup>40</sup> A famous stipulation was given by Abraham Lincoln who said that democracy means ‘a government by and for the people’ (and, an additional phrase from Daniel Webster, ‘answerable to the people’). There is a whole body of literature debating what constitutes a democracy or a democratic system of government and how it works. But central to the modern (or western) idea of democracy is the concept of majority rule through elected representatives. (Lijphart, 1999: 1-2).

<sup>41</sup>In his concept of polyarchy or realistic democracy model (see Dahl, 1971).

that: “Elections, open, free, and fair, are the essence of democracy, the inescapable sine qua non”. He further argues that governments produced by elections may be inefficient, corrupt, shortsighted, irresponsible, dominated by special interests, and incapable of adopting policies demanded by the public good. These qualities may make such governments undesirable “but they do not make them undemocratic” (ibid.).

Many scholars, however, are not satisfied by the minimalist definition of “electoral democracy”, and prefer to include values such as human rights and other liberal values that make up the concept of what is known as “liberal democracy”. Amartya Sen (2001: 9-10) for instance, strongly protest against democracy being identified with majority rule, arguing that democracy has complex demands, “which certainly include voting and respect for election results, but it also requires the protection of liberties and freedom, respect for legal entitlements, and the guaranteeing of free discussions and uncensored distribution of news and fair comment.”<sup>42</sup> It is not our purpose to engage in a lengthy and exhaustive discourse on democracy, our interest is mainly to find some kind of yardstick or litmus test for Indonesia’s political system and how it measures to the generally accepted norms of democracy or democratic system of government. Dahl (1998: 130) maintains that no political institutions shape the political landscape of a democratic country more than its electoral system and its political parties. Dahl (1982: 37) has earlier argued that authoritarian regime tends to suppress political parties while democratic regimes allow (multiple) parties to exist. Along these lines of reasoning, we need to look into how the electoral system and the political parties functioned during the New Order and see how they fit into the criteria reserved for a democratic system of government.

However, across the entire political system, certain practices may not meet the criteria such as freedom of speech, assembly and association. It may also fail the test for some of Elklit and Svensson’s criteria for fairness. Their checklist for a fair election consists of: a transparent

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<sup>42</sup> Uhlin (1997: 11) however sees merit in finding a definition that is broad enough to include different interpretations, but precise enough not to include all kinds of governmental doctrines and political systems. He inclines to use the definition of democracy offers by David Beetham which defines democracy as a mode of decision-making about collectively binding rules and policies over which people exercise control; and that the most democratic arrangement is where all members of the collectivity enjoy effective equal rights to take part in such decision-making directly.

electoral process; an election act and an electoral system that grant no special privileges to any political party or special group; absence of impediments to inclusion in the electoral register; establishment of independent and impartial election commission; impartial treatment of candidates by the police, the army, and the courts of law; equal opportunities for political parties and independent candidates to stand for election; impartial voter education programs; an orderly election campaign (observance of a code of conduct); equal access to publicly controlled media; impartial allotment of public funds to political parties; and no misuse of government facilities for campaign purposes. The political system applied by the New Order would have difficulties in meeting some of the criteria of fairness, such as transparency, impartiality, equal opportunity.

The political and electoral laws of the time allowed only three political parties to exist and participate in elections. One of them, Golkar, the ruling 'party', was established in 1964 originally as an extended arm of the military to combat the communist party (PKI) through political means.<sup>43</sup> Although it acted as a party and participated in elections, Golkar claimed not to be a party but rather an amalgamation of functional or professional groups. Political parties had fallen into disrepute during the New Order era due to the political excesses that occurred in the preceding periods.<sup>44</sup>

The first election under the New Order was held in 1971. Nine political parties that still existed after the purge of the communists and leftist parties of the Old Order participated in the election: four Islamic parties, one Christian-Protestant and one Catholic party; the rest were nationalist or noncommunist socialist parties. Golkar was

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<sup>43</sup> From the beginning as the political arm of the military, Golkar was dominated by the military in both its most important organizational posts and its political direction. During the New Order period all the successive Chairmen of Golkar came from the military except for the last one, who is a civilian but a long time Golkar stalwart.

<sup>44</sup> Many observers viewed Golkar as the mainstay of a corporatist system that developed during the New Order. Corporatist interest groups that incorporated into Golkar included civil servant organization that pledged their political allegiance to Golkar (or more accurately "channel their political aspiration through Golkar"), the wife of civil servant organization, labor union, farmers' organization, youth organization, journalist association, and various business and social groups. Active military personnel were not allowed to join any political party, but almost all retired military personnel--and their families--belonged or pledged their political allegiance to Golkar.

the only "non party" participant. Two of the parties did not get enough votes to be represented in the Parliament. However, ten political organizations were considered at the time as just too many for political stability to be maintained and ensure unhindered development. Indeed, from the beginning of the New Order one of the original ideas for political reform to ensure political stability was to reduce or "simplify" the number of political parties. In 1970, the government took the initiative to form a national consensus among political parties to reorganize the parties into three groups: Golkar, the Islamic parties to form one group and the rest in another group. Two years after the 1971 general election, in 1973 the "fusion" was completed, in which the Islamic parties merged (or "fused" to use to exact word of the day) into the United Development Party (PPP) while the nationalist and Christian parties "fused" into the Indonesian Democratic (PDI). Hence every general election that was held from 1977 to 1997 was contested by these three parties, Golkar unflinchingly winning every election, garnering at least two third of the votes.

Representatives do most of the work in modern democracy. The central question is how they are chosen and held accountable for their actions.<sup>45</sup> The 1945 Constitution sent a rather ambiguous message with regard to representation, allowing certain appointments. MPR, which according to the constitution was the "embodiment" of the sovereignty of the people having the authority to elect (and impeach) the President and amend the constitution, was composed of the whole parliament plus additional members representing the provinces and "functional groups". Among all the members of MPR therefore only the members of parliament were elected through general election. The President appointed the members representing the additional functional groups, who would later join the Golkar faction in the MPR. The provincial councils or local parliaments elected the regional representatives.<sup>46</sup>

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<sup>45</sup> Schmitter and Karl (1996: 50) emphasizes the accountability aspect and come up with their definition of modern democracy as "a system of governance in which rulers are held accountable for their actions in the public realm by citizens, acting indirectly through the competition and cooperation of their elected representatives."

<sup>46</sup> Golkar also effectively controlled the provincial councils that were elected in general election, at the same time as the national parliament, in alliance with the military faction. Thus the members of the regional representative were all associated either with the military, bureaucracy or with Golkar.

Although non-elective membership were specifically mandated by the constitution for the People's Consultative Assembly (MPR), the political laws stretched this stipulation to also include non-elective representation in the parliament. On top of the electoral vote that Golkar received the government had the right to appoint 20 percent of the members of parliament to allow the representation of the so called non-political functional and professional groups, and representatives of the military who were not allowed to vote. The non-military members of the appointed functional group in the parliament would join the Golkar faction, in effect increasing the number of Golkar MPs over and above what they won in the election. Together with the military faction, they formed a bloc that had absolute control of the parliament. Thus legislation and other policies of the government could easily get the approval of the parliament, providing a politically stable environment, which was very conducive to the cause of development.<sup>47</sup>

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. Many scholars also find faults in the 'floating mass' system, one of the cornerstones of the New Order political system. The depoliticizing of the masses had cut off the political parties from their grass roots. Although ostensibly applied to all three political organizations, it gave advantage to Golkar, as it could access and mobilize the rural masses through the village bureaucracies, such as primary school teachers and the village apparatus. The territorial machinery of the military<sup>48</sup> also reached grass root level, so to many analysts the floating mass system worked well for Golkar, while it disadvantaged the other political parties.

Observers also point out that the existence of civic organizations and interest groups was highly regulated, and only the ones that were established or recognized by the government were allowed to exist, these including the business, labor, journalist, youth, and women organizations. This political arrangement runs counter to the notion of liberal democracy in which interest groups

play an important role. Civil society is indeed the third political institution, which according to Dahl (1982: 65-67), after the constitution, and election and political parties give the mark to and characterize a working democracy. All through the years the New Order had been under continuous criticism for the way information was regulated. Under the press law, the press was heavily monitored and news reports or articles that might threaten stability, national unity, ethnic and religious tolerance, and development were not tolerated. The system also called for tight rule on labor movements. Strikes, as a mode of resolution to labor dispute was not encouraged because it was perceived as contrary to the spirit of *Pancasila*, and posed a threat to stability and development. Labor disputes were expected to be resolved peacefully within the boundaries of what was known as a tripartite system of negotiation involving labor, business and government representatives.

The absence of effective opposition is one of the essential arguments refuting the New Order's claim to democracy. Huntington (1991: 305) underlines the first criterion for democracy as equitable and open competition for votes between political parties, with an absence or minimal levels of harassment or restriction of opposition groups. The role of opposition in a democracy is as important as those who are in power. In fact under the British tradition the opposition party has a shadow cabinet. Democracy is expected to allow the possibility of change of government as a matter of principle. Schmitter and Karl (1996: 56) maintain that in democracy those who win the greater popular support will recognize this superiority as being temporary and will not use it to bar the losers from taking office or exerting influence in the future. They argue that all democracies involve "a degree of uncertainty" about who will win the election and what policies will evolve. Even in those polities where one party persists in winning elections the possibility of change still exists, as in Japan. They conclude, "if it does not, the system is not democratic, as in Mexico, Senegal or Indonesia" (ibid.). In other words, if the result is always certain and change do not happen for a long time and unlikely to happen as the result an election--such as the case where the system assured the perpetuation of existing ruling party versus opposition parties position-- then it is questionable that the system under which it operates is democratic. Huntington, quoted by Plattner (1996: 47) has pointed out, "the East Asian dominant-party systems seem to involve competition for power but no alteration in power, and participation in elections for all, but participation in office only for those in the 'mainstream' party."

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<sup>47</sup> The number of civilians appointed members of parliament was gradually reduced and eventually was abolished; making the parliament member all elected except for the representative of the military, whose number was also gradually reduced.

<sup>48</sup> Including the police, which at that time was part of the armed force.

Indonesia under the New Order was regarded as one among several dominant-party systems. Huntington drew a continuum between democracy and authoritarianism in the dominant-party systems in the East Asian region. As of 1990, Japan occupied the position at one extreme (democracy) and Indonesia at the other extreme (authoritarianism). Korea, Taiwan, Malaysia and Singapore situated in between, more or less in that order (Huntington, 1991: 305). While Huntington includes Indonesia (under the New Order) with a group of non-democratic countries, he makes a rather ambivalent assessment of Malaysia and Singapore. In one argument, recognizing that there exists a continuum between democracy and authoritarianism he typifies Malaysia and Singapore as quasi-democracies or semi-democracies (1991: 19/295). On the other hand while applying democracy as dichotomous variable, he speaks of Singapore and Malaysia as authoritarian regimes (1991: 302). Here enters the question of the role of culture or values.

All the discussions above are based on the works of western scholars. Is democracy a monopoly of the west? Are there no cultural variants of democracy? On the hand, is culture a legitimate (or genuine) justification or merely an excuse (or apology) for authoritarianism? Indonesia, under both Sukarno and Suharto insisted that culture was indeed *the* distinctive variable of any political system, and launched concepts for the political systems that would respond best to what they claimed to be the intrinsic values characterizing Indonesia's society. Lee Kwan Yew, the former Prime Minister of Singapore, the founding father of the country and its political architect, has been making a very strong case about the Asian values as an important element in the political system of the East Asian countries. He believes that adversarial politics is out of place in a multiracial society such as Singapore. As a consequence in Singapore vigorous measures were taken to limit dissent and to prevent the circulation of media critical of the government and its policies. That leaves Singapore "an authoritarian Confucian anomaly among the wealthy countries of the world" (Huntington, 1991: 302). The fact that Singapore and Malaysia have a functioning Internal Security Act also contributes to their exclusion from the group of democratic countries.

Many scholarly works have been devoted on the subject of cultural paradoxes in democracy; most concluded that indeed culture exerts a certain influence on how democracy is adapted among countries (see Alagappa, 1996; Fukuyama, 1996; Lipset, 1996; Huntington, 1996; Inglehart, 2000; Sen, 2001). In the case of Asian countries there has been much serious discourse about Asian values

being the determinant factor in the remarkable economic achievements of the East Asian countries. But in the wake of the economic crisis, the argument for the Asian values has somewhat lost its credence. Amartya Sen (2001: 6) for one dismisses the so-called "Lee (Kwan Yew) hypothesis" that disciplinarian (Confucian) states had faster economic growth as based only on sporadic empiricism, drawing on very selective and limited information. The fact that countries in Asia have abandoned attaching certain values to democracy and embraced the western style of democracy, such as the Philippines, Korea, Thailand, Taiwan and most recently Indonesia have further muted the cultural argument. However culture does matter, as Inglehart (2000: 96) says that "in the long run, democracy is not attained simply by making institutional changes or through elite level maneuvering. Its survival also depends on the values and beliefs of ordinary citizen." Although cultural values are still regarded as important variables and providing more than just local color for democracy, it is also widely believed that there are certain intrinsic values of democracy that are universal in nature, without which the term democracy does not apply. They are at the least embodied in the minimal definition of democracy. It is not just a matter of principle but also expedience, as Lipset (1996: 153) explains it: "cultural factors deriving from varying histories are extraordinarily difficult to manipulate. Political institutions---including electoral systems and constitutional arrangements---are more easily changed. Hence, those concerned with enhancing the possibilities for stable democratic government focus on them." There are also some analysts who--recognizing the existence of political institutions that reflects some degree of democracy such as election, political parties and parliament---include Indonesia among the group of electoral democracies, although it failed to qualify for liberal democracy (Diamond and Plattner, 2001: x-xiii). Most analysts however believe that Indonesia during the New Order period did not even meet the minimal requirement. At best it was a benevolent, semi or (paraphrasing Oksenberg, 2001: 349) "soft" authoritarianism.

### *Justifying Legitimacy*

If it was not a true democratic system of government, what kept the system in power for so long? What justified its legitimacy? What was the source of its resilience?

Pabottingi (1995: 225) reflecting the view of many analysts posits that: "incumbents and supporters of the

New Order argue its legitimacy on two key grounds: political stability and economic development.” He continues to propose that the endless political strife in the previous systems of parliamentary democracy and guided democracy created acute political instability that rendered development efforts impossible and even threatened the survival of the state. This observation is in line with Huntington’s, in his colossal treatise on democratization that occurred in the last two centuries. He observes that many authoritarian regimes initially justify themselves by what he identifies as “negative legitimacy” deriving from the failure of democratic systems and promising that they were combating communism and internal subversion, reducing social turmoil, reestablishing law and order, eliminating corruption and venal civilian politicians, and enhancing national values, purpose and coherence. Those were exactly the *rationale* of the New Order when it emerged in 1966 with the support of students, intellectuals and various mass and religious organizations. Huntington (1991: 49-51) continues to observe that with the decline of negative legitimacy, the authoritarian regimes then looked to “performance is a principal if not *the* principal source of legitimacy”. In some countries the leaders of the authoritarian regimes promised economic and social reform, while in some others they promised economic growth and development.

Those observations precisely explained why the New Order government under Suharto had been able to stay in power for so long: it delivered. The *raison d’etre* of the New Order was based on its promise to undertake a “total correction” of the mistakes made by the so-called Old Order with its guided democracy. At its inception the New Order considered itself to be a reformist government supported by popular movements, students and intellectuals in particular. Its drive had three main thrusts: i) to return to pure implementation of the 1945 Constitution, ii) to create political stability, and iii) to enable the realization of the Message of People’s Suffering (*Amanat Penderitaan Rakyat*) through economic development. Developmental ideology of the New Order had replaced flamboyant and grandiose political schemes of the Old Order; pragmatism had replaced political idealism. The New Order introduced a credo: “The Development Trilogy” consisting of: stability, growth and equity. It had become the battle cry of the New Order; everything else was subordinated under these objectives.

And indeed the New Order put into practice what it preached, and it had realized what it promised. Within a quarter of a century the country had dramatically grown and changed. The World Bank in 1993 described Indonesia as one the East Asian Miracles and belonged to

a group of fast growing economic tigers (see World Bank, 1993). But how did Suharto manage to gain such achievement? In answering the question, for analytical purposes, we will look consecutively into the “dual leitmotif” (borrowing from Pabottinggi, 1995: 226) of the New Order: political stability and economic growth, one supporting the other and both reinforcing each other.

### *Political stability*

Political stability was achieved and had been successfully maintained during three decades of the New Order through a combination of deliberate policies and structural factors existing in the Indonesian society.

Any discourse on Indonesia’s political stability under the New Order needs to look first into the role of the military. In the New Order political system the military played a central role. At the core was the concept of “dual function” or *dwifungsi* of the military. According to this concept the military inherently possessed two political functions: the security and the social-political function. The concept, which originated in the 1950s to establish the political role of the military during the chaotic parliamentary democracy, was further expanded during the New Order to become the country’s major sociopolitical institution. The philosophical base was the historical role of the military in the struggle of independence, during its most difficult political crises, and in saving the nation from disintegration (Said, 2001: 2-21). The military was reverently regarded as the sons of the people, and the most trustworthy custodian of the state and defender of its Constitution and ideals.

The important role of the military in Indonesian politics did not derive from its numerical strength, as they are relatively small in comparison with the population, but from the way it effectively permeates all the knots and stages of the nation decision making process from the very top to the lowest level. The Japanese expert on Indonesia’s military-politics Takashi Shiraisi (1999:74-75) maintains that the Indonesian military “possesses what can be called structural power resulting from its monopoly on state coercive power, its institutionalized role on the political process, its domination of Indonesia’s intelligence community and its reach all the way down to the village level”. By his account, by the early 1990s, an estimated 14,000 military personnel held posts outside the formal military structure. In line with the dual-function concept, the military as one of the functional groups, having the right of representation in the national assembly, was allotted seats in the National Parliament (DPR) and the

People's Consultative Assembly (MPR); and also held seats in provincial and district assemblies (DPRD). They were seconded to nonmilitary posts in the government, serving as Cabinet ministers, ambassadors, provincial governors and district chiefs and filling the top ranks of the bureaucracy in central as well as regional governments. It was part of the system of political patronage that has been regarded by critics as the underlying feature of the political alliances forged under the New Order. The military had been the staunchest supporter of President Suharto as there had been a mutually reinforcing interest, *sympiosis mutualistis*, to safeguard national stability and the continuity of development efforts.

The military, the bureaucracy and Golkar constituted the political pillars of the New Order, with the military being the *primus inter pares*, although Golkar had acted as the formal vehicle for the political alliances supporting the New Order. At the top sat Suharto as the sole arbiter of power within the "party". As the Chairman of the council of elders or patrons (Dewan Pembina), composed of serving and retired ministers, the Commander of the Armed Forces and other senior members of the ruling elites, he held the ultimate right to set and veto policies, approve and dismiss the board of the "party" executive including the "party" Chairman. All through the six general elections Golkar won more than two third of the votes<sup>49</sup>, thus assuring political stability, continuity and consistency of policies.

The role of the civil servants in the network of political alliances supporting the New Order should not be underestimated. Not only government departmental bureaucracies, but also professionals like teachers, including professors, belonged to this group. In fact many officials including cabinet ministers were recruited from the universities. The architects of economic policies for the New Order—the so-called technocrats-- were western educated academics, with strong ties to the international financial and development institutions such as the IMF and World Bank. The government think-tank, the National Planning Agency (Bappenas) draws its personnel mostly from the academia, representing the elite universities around the country. Many of them attracted to serve in the government for the opportunity to contribute to its declared commitment to the betterment of the lives of the people. Even members of the legal apparatus such as prosecutors and judges are all civil servants and therefore

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<sup>49</sup> To many of its critics, with the support of the military machine with its territorial command, and the bureaucracy with its reach down to the village level, the magnitude of support for Golkar in the election should not be a surprise.

politically belonged to Golkar. Local government heads, from governor down to the village chief level also pledged their political loyalty to Golkar.

The political and economic mess that characterized the old regime was attributed, among other factors, to the divisiveness of the people along the lines of political ideologies. Social conflict arising out of clash of ideology was regarded as not only causing political instability but also putting obstacle to development, diverting energy and distracting concentration away from the more important national goal, which is the improvement of life of the people. In accordance with this line of reasoning political parties were not allowed to recruit members or cadres in the village level. The people in the grass root had to be left alone so they could devote their priority to the quest for better life. The lowest branch of political party was allowed only at the sub-district (*kecamatan*) level, one notch above the village level. As the result the political parties were cut off from their masses. The depoliticizing of the masses constituted an important aspect of the political strategy to sustain long-term political stability.

Indeed, ingrained within the idea of a familial state that there is no place for opposition. The other two parties were left outside the government, to play the role of "benign opposition" or at best "constructive opposition", as the word and idea of opposition was alien to *Pancasila* democracy, reminding people of the bitter memory of the chaotic parliamentary system, whereby government and opposition parties were preoccupied in fighting each other, rendering governing ineffectual. In the successive elections Golkar kept the absolute majority, with the PPP with its captive Islamic voters following in distant number two. The results of MPR sessions were always predictable; there had never been any surprises. The MPR unanimously voted for the reelection of President Suharto in every session up until 1998, and approved government prepared state guidelines, which was the basis for government development policies in the following five years. The political system had indeed 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 growth and equity*

Overall, the political system that had evolved produced results as intended by the architects of the New Order. The political alliance forged among the elites with the military, bureaucracy ---including the technocrats---

and Golkar as the main elements; the government's factions dominance in the parliament; the restraints on political parties and other mass organizations; the restriction on political activities to within the formal political venues and accepted norms; and the control of the press, had produced and guaranteed political stability for three decades. Thus with 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 (see Chapter I). Adam Schwarz (1999: 1-2) aptly summarizes the performance of the New Order; he observes that during three decades of "authoritarian" rule, Suharto succeeded not only in restoring political stability to Indonesia but more significantly in putting in place the policies that "changed Indonesia from an economic basket to a thriving, developmental success story. Average annual growth in excess of 7 percent led to a more than 10-fold rise in Indonesians' per capita income and a decline in the number of people in poverty from an estimated 70 percent of the population in the 1960s to around 11 percent by the mid-1990s."

The New Order Development Trilogy: stability, growth and equity, was proven to be more than just rhetoric. The development performance was not limited to the economic sphere. The fruits of economic development had enhanced the quality of life of the people through progress in the social sector. As was highlighted in the first Chapter of this monograph, a wide range of social indicators provided evidence of a fairly widespread development process and results. Life expectancy rose and infant mortality declined dramatically. Eight out of ten of the population had access to health care and two out of three to safe drinking water. With six years compulsory education in place, primary school enrollment increased significantly, especially among female students; while at the same time adult illiteracy rate went down substantially. In stark contrast to Latin America, growth did not come at the great expense of equity. Indonesia's Gini coefficient averaged 0.34 between 1976 and 1990. By contrast, in the Philippines, Thailand, and Malaysia, it soared to the 0.45-0.5 regions during the same period. Indonesia soon began to be held up as a model of Third World state-managed development. Learned observers would point to the high rates of economic growth and rise in living standards, relatively low levels of social unrest and to "the absence of tanks in the streets," (Vatikiotis, 1998: 35), to the construction of physical infrastructure and social services as evidence of steadily increasing welfare for the majority of Indonesian.

Targeted policy mechanisms such as the progressive and redistributive *Inpres* (Presidential Decrees) coupled with the "Eightfold Equity Development Strategy" (*delapan jalur pemerataan*), as the implementation strategy for the equity part of the Development Trilogy, were aimed at developing backward rural areas and poverty pockets all over the country, with funds and assistance from the central government. Some elements of the funds were channeled through the provincial and district government budget mechanism and others through various credit and micro-credit schemes given to farmers, cooperatives, small businesses, and to economically empower the poor households.<sup>50</sup> These pro-poor policies increased equity and spread the fruits of development, reaching even the most remote areas of the archipelago. Furthermore, funds generated from the oil bonanza during the oil-boom years, were translated into real roads, bridges, harbors, irrigation, telecommunication--including a domestic satellite system-- that not only brought economic benefit to the people, rich and poor, but also strengthened the claim of the archipelagic nation as one political and economic entity.

Two achievements that earned the New Order government international recognition, and awards, were self-sufficiency in rice and population control. In the mid-80s, Suharto proudly declared the country had attained *swasembada beras*, self-sufficiency in rice. Indonesia had been the world's largest rice importer for many years. The drive centered around a price mechanism that gave incentives to farmers to produce rice, supported by subsidies on fertilizers and pesticides and development of rural infrastructure, most notably a extensive irrigation network, covering large areas of the rice producing regions. The result was not only rice self-sufficiency but also the improvement in rural income that contributed substantially to reduction of poverty. A World Bank comparative study on the effects of the oil boom on Indonesia, Nigeria, Venezuela, Ecuador, Algeria, and Trinidad showed that Indonesia was the only oil-rich country that significantly expanded agricultural output. Economics and strict efficiency, Smith and Ricardo aside, the New Order had proven it was able to reliably feed Indonesia's burgeoning population—a population within a limited landmass that some have called a demographic nightmare. Indonesia, the fourth most populous country in the world, also has the third highest growth rate of population density, behind India and China. The Malthusian strains on the environment have always been

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<sup>50</sup> Such as the last *Inpres* during the new Order: the *Inpres* for poor people in the poor villages (*Inpres Desa Tertinggal*).

pressing, particularly in Java, home to 60% of the population. Central Java is projected to have urban-level densities of 1,000 per square kilometer in the next decade. The fertility of the soil, the availability of water have sustained the population of Java for ages, but the threat of exceeding the island's carrying capacity, or reducing it by pollution and habitat destruction increases with the population. *Keluarga Berencana* (KB, literally family planning) was arguably one of the New Order's unqualified successes. In the year 2000, demographers estimate the national rate of population growth at about 1.5%, much lower than the 2.4% of the 1970s at the inception of KB.

A comment made by Pabottingi (1995: 226) should conclude the review on the performance of the New Order government in maintaining political stability, achieving economic growth and a certain degree of equity. He pointed out that the New Order has not only halted but reversed the rapid deterioration of the economy; it has also led Indonesia into the ranks of middle-income countries, created self-sufficiency in rice, significantly reduced dependence on oil exports by enhancing the manufacturing sector, and commendably increased the facilities for primary school education. What is more profound was his conclusion that with such cumulative achievements, the New Order government deserves, at least in the eyes of its supporters, "to continue ruling the country for another 25 years" (ibid.).

So why didn't it? Why did the New Order collapse as it did? What went wrong?

### *What went wrong?*

We would like to start with Huntington's explanation of democratic transition as a function of economic development and economic crisis. 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. Although Lipset based his finding on the basis of existing democracies, Huntington argues and goes to a great length to prove that economic growth and the resulting

improvement in income per capita is a major factor in democratic transition. Economic development and industrialization, produces a new, diverse, complex, and interrelated economy, creating new sources of wealth and power outside the state. It also triggered changes in social structure and values that encouraged democratization that explained why economic development and the movement of countries into the upper-middle income levels promoted democracy. 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). Huntington does not stop at making qualitative prophecy; he continues to make quantitative based prediction. 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 his accountability speech to the MPR on March 1, 1998, President Suharto (1998: 16) reported that in 1996, the year before the economic crisis swept 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 eventually sooner or later political change would happen. 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. To sustain continued growth, the New Order recognized the necessity of opening up the economy, to facilitate the entry of capital and technology that fuel further growth. With industrialization, came the need of markets larger than just the domestic market. To gain access into export markets, there was the principle of reciprocity, requiring that domestic market be opened up for foreign goods and services. Expanded export meant expanded import for the machinery and raw material that were needed to produce the exported goods. 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 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. 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 breakdown of barriers to communication, the main force behind globalization and the drive toward a higher degree of civilization, swept 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.<sup>51</sup> The information Berlin wall was crumbling down. People closely followed the fall of non-democratic systems of government in the former communist countries, the Philippines and Korea. In the era of computers and worldwide telecommunication, creativity, innovation, adaptability, initiative and openness to the world economy are essential to maintaining economic competitiveness. It is going to be difficult for these characteristics to flourish for long where political freedom is seriously curtailed. Man is one whole being, it is not possible that values that create initiative and creativity can be constrained to or reserved for only one part of the man (economic part) and not for the whole (see Plattner, 1996: 41; Kartasmita, 1996: 110).

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. They are businessmen and intellectuals, doctors, lawyers, managers, technicians, university lecturers, writers, artists and journalists. However up until the end of the 1980s the Indonesian middle class, or families that were able to support a middle class lifestyle, was still relatively small, in comparison with countries such Korea and Thailand; by one account consisted only between 7 to 10 percent of the

Indonesian population (Chalmers, 1993: 54). Hence, some have called this problem the "hollow middle" in the Indonesian economic and social class structure (Kartasmita, 1996:187). At that stage the Indonesian middle class political attitude was not necessarily anti-government; 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: 45) observes at that stage the Indonesian middle class were still highly dependent on state power and lack the autonomy that had enabled the business class in other countries to push through demands for the rule of law and some democratic rights. On the other hand they are also the ones who were prone to dissatisfaction as expectations grow. Economic development created new sources of wealth and power outside of the government. While large conglomerates depended on government contracts, protection and special treatment, the middle business class increasingly becomes independent of the state. 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: 25) 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. They conclude that eventually "economic success contributed to the demise of authoritarianism." 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. The educated middle class tended to become more and more vocal in defense of their 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 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 on going process of political reforms and democratization that is gaining momentum in the country,

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<sup>51</sup> When the Government closed down the popular Indonesia magazine, *Tempo*, because of its critical tone, it simply resurfaced as an Internet website.

the role of the NGO is growing. International network of NGO and their support to Indonesian NGO had also contributed to the growth of the Indonesia's civil society during the last decade.

With the construction of irrigation, inland roads, electricity that had covered around 70 to 80 percent of the population, and nation wide schools and health services, the rural as well the urban areas were both affected by economic development. However, 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. Although all strata of Indonesia's society enjoyed the benefit of development, those at the top enjoyed—disproportionably—the most, thereby widening the social and economic gap between the rich and the poor (Kartasasmita, 1996: 53). Despite liberalization measures undertaken in response to the wave of globalization in mid-1980, 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, which were controlled by or prejudiced in favor of privileged business conglomerates. 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 controlled by ethnic Chinese who enjoyed protection from international competition and guaranteed access to state funds and facilities.

At the height of the praise for the New Order achievement, Pabottinggi noted the lack of distributive justice as one of the major criticism of the New Order. He argued that the Indonesian economic success had benefited the urban and industrial sector while (relatively) marginalizing the rural and traditional sectors. He also believed that the state of the Indonesian economy was far from bright. Rampant monopoly, oligopoly, and nepotism increased inefficiency and hobble the economy. In particular, representing many views among observers of Indonesian affairs, he saw problem in the dichotomy between the indigenous (*pribumi*) and non-indigenous (non *pribumi*, read Chinese) economic players. He was critical of the New Order economic policies and practices that had resulted in “inordinate dominance of the non-*pribumi* in the national economy, particularly in the urban and modern sector”, and offers a prediction that the antagonism between the *pribumi* and the non-*pribumi*

“could well be the Achilles heel of the New Order” (Pabottinggi, 1995: 227-228).<sup>52</sup>

As mentioned earlier this special position of the Chinese merchants in the Indonesia's socioeconomic class structure was historically inherited from the colonial era, during which the Colonial power used the ethnic Chinese the help administer and run the vast colony's economy, such as in collecting tax, and distribution and retail activities.<sup>53</sup> By suppressing the economic activities and limiting the opportunities of the indigenous population, the Dutch colonial authority sought to prevent them to economically grow strong enough to pose a threat to their colonialism. By the end of the 20<sup>th</sup> century the economic dominance of the ethnic Chinese had become entrenched. According to one account (Schwarz, 1999: 2) the ethnic Chinese, although comprising 4 percent of the population, control up to 70 percent of the private, modern economy and are especially dominant in banking, trading and distribution. The special relationship enjoyed by the Chinese business community with those in power continued even when the power holders had changed, thus created deeply rooted resentment among the *pribumi*.<sup>54</sup> The concern for the unfair competition (“loaded dice” according to Pabottinggi) and treatment favoring the non-*pribumi* was shared also by many in the government and even some Cabinet ministers. They had tried to correct the lopsided imbalance caused by the historical privileges accorded to Chinese businesses, finding ways to overcome the barriers to entry to economic opportunities for the *pribumi*. In the efforts to tip the balance to fairer competition, some schemes had been launched to help the *pribumi* get more access to government projects and banking credit facilities. The strategy involved allowing the *pribumi* to enjoy some kind of “handicap”, in order to establish a level playing field (Kartasasmita, 1996: 171). But the odds were stacked against them, and the efforts to nurture *pribumi* entrepreneurs enabling them to survive the competition and ride with the momentum of economic

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<sup>52</sup> The May 1998 tragedy would prove the prophecy made by Pabottinggi several years before it happened.

<sup>53</sup> By the third decade of the 20<sup>th</sup> century a socioeconomic stratification emerged in which Europeans occupied the highest stratum followed by foreign Asians mostly Chinese, while the majority of the indigenous people at the bottom of the social ladder “lived on crumbs of the colonial enterprise” (Pabottinggi, 1995: 230; see also Kartasasmita, 1996: 111).

<sup>54</sup> The resentment against the collusive relationship was growing into such proportion that many *pribumi*, having resigned to the situation as a fact of life, albeit probably cynically, justified the growing role of the First Family in the economy as a move to break the economic domination of the ethnic Chinese.

growth were only partly successful.<sup>55</sup> It is however important to note that much of the negative sentiment against the ethnic Chinese may sound unfair to the majority of the ethnic Chinese population, whose families have been living in Indonesia for generations, many of them do not speak any Chinese language at all. Many Chinese-Indonesian participated in the struggle of independence and they were among the founding fathers of the Republic.

Other issues abound. 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.

The tightening control over policies and decision making processes in the hands of the President had not only strengthened the forces of change within society but also disillusioned his original and traditional supporters, even those within the government. While economically the government was committed to and intently pursuing open policies, politically the government kept a tight a grip. The fundamental political concepts described above were sustained by policies that dealt decisively against any element that might pose a threat to stability and thus to development and hence to the ascribed objective of creating welfare and prosperity for the people

With the growth of new industries in the last decade the Indonesian industrial workers grew in numbers. But unlike in other countries such as Korea they had not gathered enough political clout to have a significant role in changing the society. One of the reasons was the composition of the Indonesian labor, which mostly worked in sunset and import substitution industries with relatively low levels of skills. They were easily dispensable and replaced by others who were queuing to get a job. Therefore they had a weak bargaining position *viz a viz* the capital owner.<sup>56</sup> The labor laws also did not work to their

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<sup>55</sup> Their efforts were undertaken at the risk of being accused of collusion, and of incurring the wrath of the President, who did not share the concern about the *pribumi-nonpribumi* economic cleavage.

<sup>56</sup> In the resolution of labor disputes the government had been accused of siding more with the owner or management.

advantage, as the main concern of the day was to preserve stability, attract investors and maintain a conducive business climate. Under Suharto all workers belonged to the national labor union. However in some places where industries are concentrated like in West Java, East Java and North Sumatra they had grown relatively strong enough to be able to mount some forms of labor activities including an attempt at the establishment of a rival national labor organization.

The New Order had been accused of dealing harshly with political dissidents. One incident had a significant impact on events leading to the fall of the New Order, i.e. the government's intervention on the election of the Chairman of PDI. The government prevented Megawati Sukarnoputri, the daughter of the former President, Sukarno, to become the Chairperson of the party, which she won in a democratically held election in the party Congress in 1993. The government did not recognize the result of the Congress, and later supported the opposing faction of PDI. This led to a protracted dispute within the party and finally to a bloody incident on July 27<sup>th</sup>, 1996.<sup>57</sup> This incident propelled Megawati into a more prominent figure of opposition. This incident and other incidents, in particular the kidnapping of some activists critical to the government, including some vocal supporters of Megawati, further undermined the political credibility of the New Order. By that time the growing role of the President's family in the economy, and eventually also in politics had become public issues, openly discussed in closed and opens discussions, in seminars, discourses, political satires in theatres, and media all around the country<sup>58</sup>.

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. Some of the prominent retired military figures had earlier joined a group of civilian dissidents to form a political coalition known as "*Petisi 50*". And as the crisis unfolded another opposition group was formed, called the National Reformation Movement (*Gerakan Reformasi Nasional*), involving retired generals and

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<sup>57</sup> The July 27<sup>th</sup> incident is still being investigated, and there are contending versions as to what really happened that day, and who the instigators behind it were.

<sup>58</sup> By mid 1990s the President's children had expanded their role in political arena, holding important positions in Golkar and other organizations under Golkar (Van Dijk, 2002: 121). It was widely speculated that the President's family was influential in deciding on important Golkar and government appointments.

civilian politicians many of whom had occupied important position and played significant roles in the military, the government or Golkar (Van Dijk, 2002: 301). Many retired senior military officers, whose natural political habitat had previously been Golkar, joined the opposition political parties. Within the military proper, among those that were still in active service, there were also some discussions of reforms, including the need to redefine the *dwifungsi*. Shiraishi (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.

The emerging role of Islam as a force of change should also not be underestimated. For many years as the legacy of the Islamic rebellion during the early years of the Republic while it was struggling for survival, and the debate in the constitutional assembly (*konstituante*) in 1950s on what the foundation of the nation should be and numerous plots against the government by Islamic extremists, had many in the military and among the nationalists wary of political Islam. For the first two decades of the New Order the prevailing political mood was at best suspicious of political Islam and many harbored doubts about their commitment to *Pancasila*. When it was said that the enemy of the state and *Pancasila* were the left and the right extremes, the left referred to the communists and the right the proponents of the Islamic state or the Jakarta Charter. So the perceived threat of Islamic extremism ranked almost equal to communism. The attitude shifted at the end of the 1980s, when the New Order political elite realized that targeting Islam as perceived enemy would only perpetuate the Islam-non Islam political cleavage, and was not conducive to political stability. The government started to embark on programs to build mosques all over the country and provide facilities and support for Muslim to practice their faith. Some laws, like the marriage law, contained compromises to accommodate certain Islamic tenets.

Ironically, as Hefner (1999: 42) points out “Suharto’s government programs of mass education had a powerful influence on the Islamic resurgence.” By mid 1990s, a Muslim middle class was regaining economic and political influence, with the return of many Muslim scholars studying abroad-- many in western universities--, and ultimately with the formation of the association of Islamic intellectuals (ICMI), embracing Islamic moderates as well as former activists. ICMI was chaired by BJ Habibie, the person who was closest to President (outside

his immediate family and old time business circle). By having Habibie as its chairman it immediately gained influence. There was, however, strong criticism against the organization some from leading Muslim political figures and clerics; those who joined had been accused of being co-opted by the government. Among the military and nationalist circles ICMI was regarded with suspicion.<sup>59</sup> Although President Suharto had a hand in the birth of this organization, it would be too simplistic to accuse that their leaders were his cronies. Although from the government’s point of view ICMI was a political ally, many Muslim intellectuals joined the organization with their own idealism, some seeing the opportunity of having the power and resources of the state to help them advance the interest and the welfare of the Muslim population, who in spite of their majority, their share in political participation and resource allocation was dismally unproportional. They had vocally questioned the government economic policies that favored a small group of beneficiaries over the majority, and critical of the power abuses practiced by the government against dissidents.<sup>60</sup> ICMI could not then be separated with the resurgence of Islam in Indonesia’s politics toward the end of the New Order. Uhlin (1997:82) argues that many Indonesian pro-democracy activists are more than nominally Muslim and they often use Islamic discourses to motivate the struggle for democracy.

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 did not involve the youth and students. As mentioned before, in 1928 they proclaimed the nationhood of Indonesia in the famous *Sumpah Pemuda*. In the course of events surrounding the nation’s proclamation of independence, they pushed the political leaders to act at a time when they were considered to be wavering in immediately proclaiming Indonesia’s independence. During the war for independence after the proclamation, middle school students left school and joined the military. Some enlisted with the regular army units; some formed their own units. Many stayed with the military and became its future commanders. In 1965-1966

<sup>59</sup> Some of the criticism might be motivated by genuine concern for the aggravation of Islam-non Islam political cleavage, as ICMI increasingly gathered more influence and stature; but some were political opponents of Habibie or his rival in competing for influence with the President.

<sup>60</sup> From their ranks emerged leading figures for political reform, such as Amin Rais, Adi Sasono and Fachry Hamzah.

the students were the driving force behind the fall of Sukarno and the rise of the New Order. Former student leaders would become important members of the ruling political elite and top officers of Golkar, and some even ended up becoming cabinet ministers and ambassadors of the New Order.<sup>61</sup>

By the 1970s, however, student activism had been directed against the New Order government. In 1974 students staged huge demonstrations, against corruption and against Japanese foreign investment; many of the leaders of the incident known as *Malari* were tried and jailed. In 1978 there was again a wave of student protests. Student activism continued into the 1980s and 1990s some taking up national issues like corruption, human rights and democracy, others 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 (1997: 110) notes that the student activism of the late 1980s and early 1990s has contributed to a radicalization of the democratic opposition in Indonesia.

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. Empirical observations led Huntington (1991: 59) to believe that crises produced by either rapid growth or economic recession weakened authoritarianism. Events leading to the fall of the New Order described in the preceding part of this Chapter had shown the symptoms observed by Haggard and Kaufman (1999: 76) that economic crises undermine the 'authoritarian bargains' forged between rulers and key sociopolitical constituents. The failure of President Suharto to salvage his government and to withdraw voluntarily followed their general observation that "the resulting isolation (of an economic crisis) tends to fragment the ruling elite further and reduce its capacity to negotiate favorable terms of exit"(ibid.).

However, it was not the first time that the New Order was faced with serious crises. Although arguably the

1997/98 crisis was the severest and the most devastating in terms of its impact on the general populace-- the negative growth of almost -15 percent resulting in the reduction of real income and increase in poverty and unemployment-- still other non-democratic (by western liberal democracy standards) regimes in the same geographical region such as Malaysia and Singapore could weather the crisis and their regimes survived and outlasted the crisis. President Suharto had in fact survived--thrived--for thirty years, successfully guiding Indonesia through many crises in the past. Indeed, the New Order era began in economic crisis, at the verge of massive debt default, deep recession, and runaway inflation. Suharto steered Indonesia through the rice price crisis of 1973, the (Indonesian national oil company) Pertamina debt crisis in 1975, the 1981/82-world recession, and the oil price crisis in 1986 (see Chapter 1 of this monograph). Many of the opposing forces identified above were long present, latent in the undercurrent of Indonesian politics for years. By themselves however, they did not present a sufficient challenge capable of ending his rule. For one, President Suharto had been dealing with various dissents since the '70s. Many had speculated that had he been successful in surviving the 1997/98 crisis and bringing the economy back to its feet, the New Order would persist. The New Order's centralized power structure and careful control of political competition would have ensured the security of the President position. The social contract, in this view, has certain inertia.

But the New Order did fall. Many studies have been undertaken thereafter, attempting to find the answer to the question of why President Suharto failed to overcome this particular crisis. 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. Schwarz (1999:4), for instance stresses that the economy had a bearing on all major issues of the day. He argues that the crises had among others "influenced the thinking of indigenous Indonesian business leaders on how to reduce the economic dominance of the ethnic Chinese community; it sparked calls for greater decentralization on the part of resource-rich provinces; and it constrained the military choices in the weeks and months leading up to President Suharto's departure." However, the ethnic Chinese community themselves eventually deserted President Suharto once they suspected that he was not going to be able to defend himself-- not to mention protecting others. This attitude follows the general symptom put forward by Haggard and Kaufman (1999:

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<sup>61</sup> Foremost among them are Mar'ie Muhammad, Cosmas Batubara, Sarwono Kusumaatmaja, and Rachmat Witulur.  
[www.ginandjar.com](http://www.ginandjar.com)

77), that if the private sector actors lose confidence in the ability of the non-democratic government to manage crises effectively they quickly recalculate the costs to being associated with the regime. Another explanation is offered by Amartya Sen, who points out that the recent problems of East and Southeast Asia brings out, among other things, the “penalties of undemocratic governance”. Sen further argues that the crisis was linked to the lack of transparency in business, in particular the lack of public participation in reviewing financial arrangement, and “once the financial crisis led to general economic recession, the protective power of democracy—not unlike that which prevent famines in democratic countries—was badly missed in a country like Indonesia” (2001: 9) .

On the other hand, Liddle (1999: 25) offers one personal explanation to the question of “why”. He argues that in the 1997/98 crisis, aside from the depth of the crisis, age--Suharto turned 77 in June 1998—was “undoubtedly a factor”.<sup>62</sup> During the 1997/98 crisis President Suharto was deliberating between policy actions, and his indecisiveness had caused the crisis to deepen and eventually led to his fall. It was in contrast with the decisiveness shown by Malaysia’s Mahathir and the leaders of Singapore in dealing with the financial crisis in their respective countries. In line with Liddle’s argument, Bresnan (1999 :100) remarks that the President, “who had made many hard decisions over the previous three decades, was unable to do so in 1998.”

Obviously there was an international dimension to the political and economic crisis occurring in Indonesia in 1998. The US and IMF had often been blame for the prolonged crisis that eventually led to the fall of President Suharto. Many observers believe that the role the US played and the remedies the IMF prescribed in Indonesia were mistaken (Bresnan, 1999:88). There are also some allegations that the West, “represented” by the US and IMF, had conspired to bring down Suharto’s government.

Certainly, the IMF’s interest was not the downfall of Suharto, or any government, and it would stretch the credulity of any reasonable argument to allege that Suharto’s downfall was somehow an objective of the

organization, one that disbursed billions in bailout funds in the failed but well-intentioned attempt to help restore the economy of the country. As such, it is not helpful to think of IMF as a force against Suharto. As obvious from the preceding discussion, it was Suharto’s actions that placed him in conflict with the IMF, and this had worsened the economic and political crisis. Without the approval of the US government IMF would not have allocated so much fund and efforts to help the Indonesia’s economy. The US on their part had put on the appearance of being sincere to help Indonesia overcoming the crisis. President Clinton had talked several times on the phone with President Suharto. He sent Deputy Secretary of Treasury Larry Summers on a mission to Indonesia, and later former Vice President Walter Mondale to meet with the President. The US Administration, as represented by officials from the Treasury Department had been very helpful in providing assistance to the government, as the crisis unfolded. Assistant Secretary of State Stanly Roth made frequent visits to Indonesia during the crisis. Until very late in the political drama leading to Suhartos’ resignation the US refrained from making any public statement that would be seen as interfering in the political affairs of Indonesia. Other western countries’ leaders were also in contact with President Suharto, such as German Chancellor Helmut Kohl, Japanese Prime Minister Ryutaro Hashimoto and Australian Prime Minister John Howard. The Malaysian Prime Minister Mahathir Muhammad and Singapore Prime Minister Goh Chock Tong visited Indonesia at the height of the crisis. Furthermore, as mentioned above Japan and Singapore had each contributed \$ 5 billion in an attempt to shore up the value of the currency. Therefore many observers have argued that the West had done their best in assisting the Indonesian government in fighting the crisis

Some analysts, however would not discount the role the US play in the downfall of Suharto. Although for many years Indonesia --as a staunch anti communist nation--had always been able to count on the support of the West, by the mid 90’s Indonesia’s relations with the West had somewhat soured. After the Cold War ended, without a communist threat western donor countries were increasingly less concerned about bailing out in inefficient foreign economies especially that are facing social and political problems. Mounting criticism on the way Indonesia handled the East Timor question and the allegations of human rights abuses had precipitated stringent calls in the US Congress to link aid and assistance to human rights records, leading to US arms embargo and curtailment of training for the military. To some analysts the US Administration’s support to the economic recovery efforts was founded more on concern

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<sup>62</sup> Liddle observes that although family demands were always there for a long time, as recently as the late 1980s and early 1990s he was willing to sacrifice some family interests for the greater good. He speculates that the President: “was no longer willing or able to distinguish between the interest of his family and cronies and those of the nation. When the two diverged, as they did most dramatically since the beginning of the financial crisis in July 1997, Suharto chose to defend the interests of his family” (1999:25) .

about the conflagration of the financial crisis and worry about further contagion and its effect on the regional and global economy, rather than about supporting Suharto's government. On their visits to Indonesia, the US and IMF senior officials such as Stanley Roth and Hubert Neiss, frequently met with leading figures of the opposition, creating the impression that they were placing bets on all sides. However, it should be noted that as for Hubert Neiss visits to, and his meetings with leaders of the opposition such as Megawati Sukarnoputri and Amien Rais, those had been done with the knowledge and encouragement of the government economic team, as it was understood as very critical to have the political support of all segments of the society for the economic recovery programs. And finally on May 20<sup>th</sup> 1998 in a speech (given at the US Coast Guard Academy graduation ceremony) Secretary of State Madeleine Albright said of President Suharto: "now he has the opportunity for an historic act of statesmanship-- one that will observe his legacy as a man who not only led his country, but who had provided for its democratic transition." Although the statement was couched in a subtle and diplomatic tone it was widely seen as a call for Suharto to step down (Bresnan, 1999:100).<sup>63</sup> Those external factors certainly weakened the New Order, yet when the crisis turned to be deeper and more severe any unbiased observer could reasonably argue that the probability of Suharto's downfall was high even if relations with the West were better

In conclusion, the inability of President Suharto to bring Indonesia out of the crisis, combined with the growing domestic and international awareness that his response to the crisis—economic as well political- was digging the country into a deeper abyss, destroyed the Hobbesian compact that had kept the country united and politically stable on the path of development. The New Order could persist for so long, could delay the development of Indonesia's social, legal, and political institutions and civil society, that constitute the norms for a modern democratic nation, because it gave alternative objectives: stability, economic growth and welfare for the people. Before the crisis there were already forces, in favor of political change, arrayed against the New Order regime. However in the absence of the necessary catalyst those elements were inert, and even if change should happen it could take a long while, such as when Suharto pass away or Suharto became physically incapable to lead. The financial crisis provided the catalyst that set off a process of change. The halving of per capita income translated

into social misery: unemployment, hunger, riots, and death. Riots in the streets indicated to the President that order could only be restored at great cost. The students were no longer a force that could be intimidated or co-opted, and their growing number and popular support had given the country's political elite including the military with very little options. Failing to continue providing political and economic stability, Suharto had undermined his aura of charisma and loss whatever legitimacy he had to continue his rule. 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 had grown alienated by the way he 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. As the crisis progressed, it became more apparent that he had increasingly become isolated from reality and the prevailing mood of the nation. The conclusion: crisis forced a rewriting of the social contract.

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<sup>63</sup> Although by this time Suharto had already decided to resign anyway.