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Indonesia at the Crossroads

Indonesia's fragile new democracy is threatened by political turmoil, prolonged economic crisis, and a serious upswing in internal violence. The July inauguration of President Megawati Sukarnoputri as president is not a panacea for any of these problems, but it offers Indonesia the opportunity to make crucial mid-course corrections in its move out of authoritarian rule and economic collapse. In this regard, early indications from Jakarta are mixed.

America has strong political, economic, and security interests in helping Indonesia achieve a stable, prosperous democracy. To succeed, Indonesia must meet a series of complex challenges: jumpstarting a long-delayed recovery from the 1997-98 economic crisis; maintaining territorial integrity in the face of strong separatist movements; introducing accountability across the board, but particularly for human rights abuses in troubled provinces; and renegotiating civil-military relations.

Indonesia plays an important, if unsung, role in U.S. foreign policy. It controls vital sea lanes in the region that are critical to U.S. security and economic interests. Its support of the United States during the Gulf War was instrumental in building consensus among Muslim and other non-aligned countries for international intervention. Jakarta's backing for the American response to the terrorist attack against the United States will be no less important. Indonesia has played a pivotal role in Southeast Asia, and its leadership is essential to the future of the Association of Southeast Asia Nations (ASEAN). At present, ASEAN hosts the only regional security forum in Asia, in which the United States is a key participant. However, Jakarta's role in ASEAN all but disappeared during the administration of President Abdurrahman Wahid, and ASEAN is currently rudderless.

Once a critical "domino" in the cold war Asian security arena, Indonesia has new significance in the post-cold war world as a model for other countries in the process of rapid political and social change. As a Muslim-majority country, Indonesia's democratic experiment offers lessons for other societies with significant Muslim populations that are emerging from authoritarian rule. As the most ethnically diverse country in Asia, Jakarta's ability (or failure) to accommodate communal differences while maintaining national unity will influence stability in its neighbors with sharp internal divisions. If the fundamentalist province of Aceh withdraws from Indonesia, it will embolden separatist groups in the Philippine province of Mindinao and leaders of Malaysia's Islamic Party, which is gaining strength at the local level. Indonesia's experience in establishing democratic civil-military relations could have some influence on the course of



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An Opportunity for

political development in Burma, where the military is hinting it may restart political dialogue with the civilian opposition. The junta in Rangoon has publicly drawn parallels between the Indonesian and Burmese systems.

America's importance to Indonesia is also central, and growing. In the post-Suharto era, foreign business in Indonesia has declined on the whole, but few U.S. companies have joined the flight and U.S. investment has actually increased. The United States is now the largest source of new direct foreign investment in Indonesia. Indonesian exports to the United States have also risen in the post-crisis period. U.S. assistance to Indonesia is holding steady at \$100 million per year, focused on technical assistance for economic and legal reform and on support for civil society. But despite longstanding mutual interests and growing interdependence, the U.S.-Indonesian relationship is a fragile one. Although Washington and Jakarta were joined in the common anti-communist cause during the cold war, the two nations never established an allied relationship of the kind the United States had with the Philippines, Thailand, South Korea, or Japan. National sensitivities—most sharply felt when Megawati's father, Sukarno, served as Indonesia's first president—have remained close to the surface in the best of times and flare even in the post-cold war era. For example, both authoritarian and democratic leaders have regarded demands by the United States and other international actors for accountability by the Indonesian military for human rights abuses in East Timor as assaults on Indonesian sovereignty.

Indonesia's Multiple Challenges

Indonesia has been in a state of constant change for four years. The sudden collapse of the economy during the 1997-98 crisis created a chain reaction which caused Indonesia to turn out an authoritarian leader, relinquish control of East Timor, and initiate (but not complete) a course of broad political reform. Although these changes are positive, the fallout from the 1997 crisis has exacerbated some old problems and created new ones. To meet these challenges the new administration in Jakarta needs to:

Strengthen economic growth by tackling the ballooning debt and instituting reforms

In contrast to South Korea, Thailand, and Malaysia, Indonesia has yet to recover from the 1997 crisis. The immediate outlook continues to be grim. The Indonesian economy is expected to expand by only 2.6 percent in 2001 and exports, which are fueling what recovery there has been, could contract if Indonesia's major trading partners (the United States, Japan, and Singapore) suffer further economic sluggishness. Indonesia's present debt, approximately \$160 billion acquired to bail out failing banks in the crisis and rescue the financial system as a whole, is roughly equivalent to the annual gross domestic product. This level of debt is likely to remain a trap in the Indonesian economy for years to come, keeping

Long-Term Stability

the economy in serious deficit, hurting the rupiah currency, and discouraging foreigners from investing. The Indonesian Bank Restructuring Agency (IBRA), established as part of the 1998 bank bailout, has ballooned into a massive bureaucracy and itself contributes to the stalemate. Beyond these problems, there is serious concern both in Indonesia and abroad that continued high levels of corruption will negate any efforts at long-term economic reform. The Corruption Perceptions Index for 2001, issued by the non-profit Transparency International, places Indonesia close to the bottom of the list for controlling corruption, with only Uganda, Nigeria, and Bangladesh below it.

Stem ethnic and separatist violence, and renegotiate national unity on more democratic terms The greatest challenge to Indonesia's internal stability is the management of the numerous communal conflicts and secessionist movements in the provinces, which have erupted or become worse in the post-Suharto era. Each is a unique situation, but all have been exacerbated by a lack of attention by the Indonesian government in recent years as political elites have struggled among themselves for power in a changing system. The 1999 law to decentralize government is beginning to take hold and could lay the groundwork for more equitable and amicable relations between Jakarta and the provinces in the long-term. But in the short-run, because central government controls have loosened while provincial controls are not yet established, decentralization may only be pouring fuel on the flames of these conflicts.

Of greatest concern are two separatist insurgency movements, in the province of Aceh, which is home to a more fundamentalist form of Islam than the rest of Indonesia, and West Papua (formerly Irian Jaya). Both provinces are rich in natural resources, providing significant revenue for the central government. A special autonomy arrangement negotiated for Aceh in the Wahid administration has been approved by the lower house of parliament, and a similar plan may be proposed for West Papua. However, this watershed development has been sidelined by continued violence and serious human rights abuses committed on both the government and insurgent sides in these provinces. In Aceh, militia groups backed by the military are active, and there are signs of such groups being formed in West Papua. These militia are similar to those groups which served as surrogates for the military in East Timor, and are an added complication for civilian government leaders attempting to gain control of the situation.

Strengthen accountability across the board In these conflict-torn provinces, a key issue is that of justice for human rights abuses. Demands for outright independence in provinces

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with separatist movements may in time be deflected by autonomy packages, but the transition to such arrangements will be difficult and dangerous. The provinces are pressing for accountability in the interim, as a way of negotiating the parameters for security and the presence of the military. A human rights court for Aceh, promised by the Wahid administration with Megawati's backing, is yet to be established. Such courts might be a short-term solution, but their ad hoc nature is proof that the larger Indonesian judicial system cannot guarantee basic accountability.

Indeed, in the new era of Indonesian reform, the judicial system is weak. This has a serious effect on economics as well as politics: Indonesians know that foreign investors will not return to the country in full force until there is more genuine rule of law. There are numerous sources of this weakness: the legacy of Suharto's "caged" judiciary; a climate of impunity that persists at high political levels; a proliferation of new legislation that outpaces the government's ability to enforce it; and a plethora of demands for accountability at every level from a newly invigorated press and civil society.

Reform civil-military relations After fifty years of a "dual function" for the Indonesian military—in national political affairs as well as defense—establishing civilian control over the military will require reform in both the military and civilian sectors. On the positive side, the Indonesian armed forces have not overtly resisted reducing their numbers in parliament, although the prospect of abolishing military quotas altogether has been deferred to 2009. The armed forces maintained neutrality in the 1999 provincial elections and in presidential transitions since 1998, studiously avoiding any hint of intervention. Indeed, military commanders discouraged Wahid from ordering a state of emergency to prevent his ouster and indicated that they would not obey such an order if one were issued. Although these are hopeful signs of withdrawal from politics, they are not ironclad tests of the military's acceptance of a new role. In the last presidential struggle in particular, Megawati's strong belief in national unity made her the military's favorite in that contest. For the military, resisting Wahid's authoritarian urges was both democratically correct and politically advantageous.

Some of the obstacles to more democratic civil-military relations originate from the civilian side, or are part of a broader systemic problem. Foremost is the temptation by some civilian leaders to employ the military as an instrument of their own political power or as a short-term solution to internal political conflict. The armed forces are less vested in individual politicians than they were under Suharto, but continue to be deeply involved—politically and even financially—in their role as guarantors of internal security. Removing them from this role will require an unequivocal commitment to the civilian leadership. Another major

factor is the armed forces' involvement in the business sector. The military's business empire provides up to 70 percent of the operating budget for national defense. In the current economic climate, and with more austerity ahead, the national budget will be unable to contribute a higher percentage from its coffers to compensate the military for revenue lost due to divestment. In other Asian countries which have emerged from military rule, most notably South Korea and Thailand, the defense portion of the national budget increased by as much as 25 percent to counterbalance the military's divestment. Indonesia does not have this luxury at present and will take a longer time to make such an adjustment.

Early Signals from Jakarta

On the surface, things are looking up in the early days of the Megawati presidency. The transfer of power from Wahid to Megawati was managed without the violence feared by many (and threatened by Wahid). Megawati's first address to parliament as president signaled both a commitment to democratization and a strong concern for stability, and brought favorable response across the political spectrum. Soon after assuming power, she toured the other Southeast Asian nations to underscore Indonesia's commitment as a regional partner. Megawati's cabinet appointments, which include several technocrats, reassured the West that economic recovery is a top priority. Her first national budget, which showed a 2.3 percent contraction in spending, was well received by international creditors, although it has not yet been approved by the parliament.

In response to these early signs, the International Monetary Fund (IMF) agreed to release \$5 billion in loans to Indonesia that had been frozen since last year. This move restored Jakarta's relations with the IMF, which had suffered a new downturn on Wahid's watch. More important, it laid the groundwork for rescheduling \$2.8 billion of Indonesia's debt with its foreign creditors, originally due next March. In this new climate of accommodation, Megawati made her first official visit to the United States as president in September 2001.

But other moves are more worrisome. In her parliamentary speech, Megawati apologized for past government violations in Aceh and West Papua. She made clear that her administration will not tolerate discussion of independence for any province, but provided no indication that she intended to renew the episodic dialogue Wahid had begun with disaffected groups. Instead, counter-insurgency training has been stepped up for military forces assigned to these trouble spots, which many interpret as a sign that Megawati will restore the role of the armed forces as the primary instrument of internal stability and even that she might hand rebel provinces over to the military altogether. More broadly, she has been silent on the issue of military reform and on the role of the armed forces in a democratic Indonesia.

Another concern is the administration's seeming indifference to legal and judicial reform, evidenced by the appointment of M.A. Rachman—a career bureaucrat—as attorney general. That choice, among several candidates with strong reformist credentials, has caused some Indonesians to worry that the administration does not grasp the importance of legal reform

to Indonesia's economy, and even that Megawati will be vulnerable to the same vested interests that marked (and ultimately destroyed) Suharto's rule.

The U.S. Response

The United States has supported Indonesia's democratic reform and its attempts at economic recovery since the 1997 crisis. However, this effort could be thwarted if internal conflict worsens in Indonesia (or provokes a violent crackdown from the central government); if economic recovery continues to stall; or if there is a dramatic reversal of the country's democratization process. Just as there are no quick fixes to Indonesia's overlapping economic and political problems, so the United States should not look for silver bullets in policy toward Indonesia. Conditionality could be appropriate for economic reform. In political reform, assistance programs and the use of the bully pulpit will be more effective. In either case, results will not be instantaneous and progress will not follow a straight course.

Current U.S. assistance programs for legal and judicial reform should be expanded, since these processes hold the key to genuine progress in every area. In addition, the United States should:

- ***Link further debt rescheduling to reduction of Indonesia's crippling liability to its foreign creditors.*** The Megawati cabinet has a preliminary plan to curtail debt, but that could falter when the political costs of those measures are felt. The sale of assets (the Indonesian Bank Restructuring Agency is holding some \$50 billion worth) and privatization of state-owned enterprises are the best sources of short-term revenue. Both of these processes have stalled in the past several months from political paralysis. Through bilateral and multilateral tracks, the United States should seek to condition further loans or debt rescheduling for Indonesia on progress on these two fronts.
- ***Place Jakarta's relations with separatist provinces high on the U.S.-Indonesia agenda and offer support for accountability in center-provincial relations.*** Aceh in particular has the potential to become Indonesia's Chechnya, and President Bush should make clear that the United States cannot build a stronger relationship with a country at war with its own people. In the near term, it is unlikely that Jakarta will abandon completely the use of the armed forces to maintain control. The United States should press the Megawati administration to return to the negotiating table with provincial leaders, if only to discuss autonomy arrangements, and offer technical support for special human rights courts. The United States should stress accountability in Indonesia's remaining provinces, for Aceh and West Papua in particular. For rule of law to become rooted in the Indonesian system and political culture, it must be seen as addressing core national needs.
- ***Take a broader view of civil-military relations when renewing ties with the Indonesian military.*** Moves by both the Clinton and Bush administrations to reestablish ties with the Indonesian armed forces were based on the recognition that the military is

a critical factor in Indonesia's democratization process. The Bush administration, however, has abandoned linking improved military ties to human rights improvements that were featured in the Clinton roadmap. As such, it evokes the "osmosis theory" favored by U.S. policymakers during the cold war: that military modernization and professionalization would inevitably lead to democratic civil-military relations. This was not the case with a number of U.S. allies (South Korea, Thailand) at the time and offers no particular magic in the post-cold war world. From the outset, any renewal plan should have a human rights and democracy dimension. Human rights training for military officers under the "expanded" menu of the International Military Education and Training (IMET) program should be offered. Moreover, the United States should correct the myopia in its policy toward the Indonesian military in the past decade, which engages (or isolates) the armed forces as the sole agent of civil-military reform. Support for civil-military dialogue and training for civilians in defense affairs and management will help balance the equation.

- ***Build a long-term relationship by engaging with Indonesian civil society groups and new provincial leaders.*** Indonesia's democratic reform offers its foreign partners the unprecedented opportunity to engage a broader segment of society in pursuit of common goals. With demands for change coming increasingly from civil groups and provincial actors, the United States need not, and should not, focus exclusively on the Jakarta political elite. Assistance programs in both the civilian and military sectors should expand the use of civil groups. Exchange programs should be offered to new provincial leaders and politicians. This ultimately could have a two-pronged positive effect: safeguarding U.S. policies against nationalist backlash by involving ordinary citizens as well as leaders, and establishing ties with the future generation of Indonesian leadership.
- ***Strengthen Southeast Asian regional cooperation as a way of supporting Indonesian reform.*** Reclaiming Jakarta's leadership in Southeast Asia is dependent in great part upon Indonesia's ability to restore internal political stability in the midst of democratic change and regain economic health. In the interim, the United States can help shore up regional cooperation and support Indonesian reform indirectly with greater attention to ASEAN. Although the group of ten Southeast Asian nations continues to give rhetorical backing to the ASEAN tradition of non-interference in the affairs of member states, in reality it is keenly aware of the prospects for economic and political contagion, and the need to find regional solutions to common problems. The United States should help ASEAN in the transition to more active cooperation by providing technical support for key ASEAN initiatives. The two most important are the planned ASEAN Free Trade Area and the ASEAN Human Rights Working Group, the latter charged by the governments with developing a regional code of human rights. However, an effective policy will require that the United States support regional cooperation in Southeast Asia for its own sake, rather than simply as a meeting ground for dialogue with the major powers of the Asia-Pacific region through the ASEAN Regional Forum (ARF).

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Conclusion

Helping Indonesia move toward a stable democracy will entail a multi-pronged American effort involving broad reforms. The United States should: urge Indonesia to take to heart decisions to reduce its spiraling debt in return for debt rescheduling and further assistance; make clear to Jakarta that a military crackdown on troubled provinces will damage both national unity and U.S.-Indonesian relations; encourage Indonesia to step up legal and judicial reform—particularly to implement plans for new human rights courts; and recalibrate the American approach to engaging the Indonesian military. Renewal of U.S. ties to the armed forces should be accompanied with training in democratic civil-military relations for both officers and civilians.

In order to sustain U.S.-Indonesian relations over the longer term, America should seek broader engagement with Indonesians, particularly with new civil society leaders and provincial politicians. Finally, the United States should support Indonesian reform indirectly by helping to strengthen regional cooperation efforts in Southeast Asia.

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