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# The role of governance in the 1998 Indonesian crisis

## **Abstract**

Extract:

Much of the political analysis that is taking place in Asia in the wake of the Asian Currency Crisis and the 'contagion' phenomena, has focused on the need for 'good governance.' The definition of good governance, though, is not clear. Good governance, it seems, is comprised of many different aspects of a polity, and may be best represented by the analogy of a Rubik's cube. Like a Rubik's cube, if the pieces of the 'good governance' puzzle are manipulated in the right direction at the right time, there will be sustained growth, macroeconomic stability, and the economy will prosper.

## **Keywords**

Governance, diplomacy, international relations, politics

## The Role of Governance in the 1998 Indonesian Crisis

*By Anne Cullen\**

### Introduction

Much of the political analysis that is taking place in Asia in the wake of the Asian Currency Crisis and the 'contagion' phenomena, has focused on the need for 'good governance.' The definition of good governance, though, is not clear. Good governance, it seems, is comprised of many different aspects of a polity, and may be best represented by the analogy of a Rubik's cube. Like a Rubik's cube, if the pieces of the 'good governance' puzzle are manipulated in the right direction at the right time, there will be sustained growth, macroeconomic stability, and the economy will prosper. Getting the pieces of the puzzle working together and in the right direction is the responsibility of the state. In Indonesia before the May Crisis of 1998, this was the task of the New Order government under the leadership of President Soeharto.

However, can good governance be considered without analysing the constituents of poor governance? And how does one go about recognising poor governance, or governance problems? This is one issue on which members of the government, political opposition groups, and international agencies such as the IMF (International Monetary Fund), have speculated throughout the Asian crisis.<sup>1</sup> By focusing on the conditions for good governance, analysts tacitly argue that the monetary and political crisis of Asia is due to poor governance. By doing so, the analysts are, furthermore, opening the Pandora's box of the discourse on 'Asian values'. The 'Asian values'<sup>2</sup> discourse is often about the state and power: how the state and political elite garner political power<sup>3</sup> through the construction of ideologies that promote notions of idealised Asian traditions and communalism, and, how to exert power by depoliticising all political actors considered to be acting contrary to the state's best interests and outside the ideological framework of the state.

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1 IMF, "The Role of the IMF in Governance Issues: Guidance Note", Paper posted to the IMF Web Site, approved by the IMF Executive Board, 25 July 1997.

2 Asian values here means the use of traditional constructions of power for narrower contemporary political ends.

3 In Indonesia during the New Order, economic power and largesse were often associated with escalating political power. The economic dynamism of the cronies and children of the first family, for example, are well documented. See, for example J. McBeth, "Dept. of Connections", *Far Eastern Economic Review*, 16 October 1997, pp. 56-58.

Political strategy in Indonesia has drawn on the notion of the uniqueness of Indonesian culture and the way it has shaped the contemporary polity. The image, for example, of Soeharto as a modern-day King in the tradition of royalty of the past, has been used repeatedly in analysis of the New Order structure.<sup>4</sup> It is also an image that was promoted by the New Order itself to reinforce its own power. The New Order also called on the three enduring images of the 'Asian values' discourse to legitimate its rule. First, the New Order suppressed the ethos of an individualist culture of rights (trademark of Western ideologies) preferring to promote community-ism and consensus, derived from national cultural traditions.<sup>5</sup> Second, the New Order stressed the notion that control and order were central to the Indonesian way of life, thereby legitimating the state to depoliticise any persons or organisations that challenged or threatened this traditionalist framework of society.<sup>6</sup> Third, President Soeharto was able to present the idea of an organic state and society by promoting himself as the 'bapak' acting in the best interests of the Indonesian people, and by doing so ensure legitimacy from the people as the New Order instigated illiberal polity.<sup>7</sup>

Consequently, it is possible that the perception of poor governance permeating through the Asian crisis discourse is the result of a deeper response by disenfranchised individuals challenging the use of 'Asian values' as a system of control by the New Order, and the resultant withdrawal of the peoples' legitimacy for the New Order.

At the heart of good governance is the ability of a government to exercise authority as a result of the legitimacy granted them by the people of the nation. Even in an authoritarian regime such as New Order Indonesia, the people can give legitimacy to the government. Indeed, under the ideology of *Pembangunan Nasional* the New Order created new forms of state/society relations (in the wake of the 1965 coup) that afforded it broad-based legitimacy. *Pembangunan nasional* as an ideology represented the goals and national interest of the Indonesian people and the New Order as active agents in the development process, and it "became a slogan with mesmerising effect on Indonesians and outsiders alike."<sup>8</sup> With *intensifikasi* and *ekstensifikasi* (intensification and extensification) of economic sectors, *stabilisasi* (stabilisation) would expedite macro-economic policies by facilitating rapid industrial growth and encouraging foreign investment through legislative reform.<sup>9</sup> *Stabilisasi*

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<sup>4</sup> In the Indonesian case see, for example M. Cohen, "Divided They Stand", ", *Far Eastern Economic Review*, 12 March 1998, pp. 22-25.

<sup>5</sup> The role of ABRI in politics is interesting to contemplate here, but falls outside the scope of this paper. B. Lowry, "Indonesian Army Faces Change", *Far Eastern Economic Review*, 13 March 1997, p. 29.

<sup>6</sup> For examples of this tactic, see J. McBeth, "Line in the Sand", ", *Far Eastern Economic Review*, 27 March 1997, pp. 14-15.

<sup>7</sup> Soeharto frequently travelled into the world of the *rakyat kecil* to talk with them. However, these were not apolitical or informal chats. Rather the television crews were there and the discussion often took the form of a monologue to be broadcast on national television during prime-time viewing.

<sup>8</sup> Vatikiotis, *Indonesian Politics*, p. 35. For examples of the government use of the slogan to show their commitment to the Indonesian cause, see I. Madylo, "Penbedaan penilaian atas Modal Asing", *Kompas*, 16 February 1967; "MPRS Chairman: Thorough and Fundamental Overhauling Urgent", *Antara*, 14 June 1967; "Gen. Soeharto Discusses Follow-up of New Economic Policy", *Antara*, 9 August 1969.

<sup>9</sup> Vatikiotis, *Indonesian Politics*, p. 34.

was the key to *pembangunan nasional*, as it promised inflationary and economic stabilisation, and social control. Social and economic policies to alleviate widespread poverty, provide basic health and educational facilities, increase employment opportunities and ensure basic food sufficiency garnered middle class support in the first instance and under-classes as *Pembangunan Nasional* was seen to better the lot of the majority of Indonesians in the following decades. Consequently the New Order did have authority vested in it by the Indonesian people, who desired development and good governance. In reality this often meant accepting and working within the Indonesian state system as it was, and accepting the patterns of largesse in patrimonial alliances. Consequently some Indonesians were resigned to a measure of less-than-good governance as long as *Pembangunan Nasional* ensured continued national growth, social stabilisation and personal gain. Few seemed willing to challenge state power or the Indonesian system. By 1998, however, this accommodation between the state and society had radically changed, and the people were willing to hasten a crisis to change the status quo.

In a pro-New Order speech to the General Plenary Session of the MPR on Wednesday 4 March 1998, Dr. H.M. Alfian Darmawan, of the *Fraksi Persatuan Pembangunan* (F-PP) MPR first highlighted the issue of good/bad governance as a root cause of the Indonesian crisis. Alfian speculated that “because clean and good governance has not been possible, the same notion has, it seems, become the root problem – in the form of corruption, manipulation, nepotism - burning in Indonesian’s hearts, and made the people and the nation susceptible to the crisis.”<sup>10</sup> Alfian then included entrepreneurs as part of the cause for the failure of the Indonesian government to establish and maintain good governance. The article quotes Alfian questioning the role of entrepreneurs, and their failure to embrace solutions to the national problem, while ordinary people have embraced campaigns such as, ‘I love the Rupiah’, ‘I love this nation’, and ‘I support national products.’ He also reinforced the notion that good governance remains impossible in Indonesia as long as the existing relationship between government and business maintains its present form. Indeed, says Alfian, “we all know that until now all the entrepreneurs have enjoyed the facilities offered by this nation. They enjoy legislated protectionism, subsidies, monopolies, control over the forests and so on. They receive large loans from the banks, and they are the ones that buy people’s land at low prices because the bureaucracy backs them.”<sup>11</sup> In sum, Alfian is suggesting that poor governance in Indonesia was not simple, or solely, the responsibility of the New Order government. The particular relationship between government and business in Indonesia, he argues, encouraged poor governance – and made the nation susceptible to the Asian contagion.<sup>12</sup>

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<sup>10</sup> “FPP: ‘Clean and Good Governance’ Belum Terwujud”, *Suara Pembaruan Daily*, 5 March 1998.

<sup>11</sup> Ibid.

<sup>12</sup> The relationship between government and business has been the subject of more than one academic study and prolonged discussion falls outside the focus of this paper which seeks to look at the Indonesian crisis within the framework of good/poor governance. (See, for a select example R. Robison, *Indonesia: The Rise of Capital*, Allen and Unwin, Sydney, 1986, A. MacIntyre, *Business and Politics in Indonesia*, Allen and Unwin, Sydney, 1991, and M. J. R. Vatikiotis, *Indonesian Politics Under Suharto*, Routledge, London, 1993.)

Poor governance means the failure of the government to strive for excellence in ten key areas: accountability, transparency of operations, good leaders and leadership, efficient use of resources, rational policy and decision making – no personal agendas, fairness of the bureaucracy, professionalism, checks and balances and control mechanisms and, finally, participation of the people.

### Accountability

Accountability to whom? First and foremost, the New Order had a responsibility to be accountable to the people of Indonesia. Democratic governments rule with legitimacy granted to them by the people. When the people interpret their government as no longer ruling in their best interest, often legitimacy will be withdrawn through the electoral process. Indonesia is technically a parliamentary democracy. On 10 March 1998, in the middle of the economic crisis in Indonesia, President Soeharto was selected by the MPR (*Majelis Permusyawaratan Rakyat* – The People’s Advisory Assembly) for a record seventh term. Soeharto’s return to the Presidency was never seriously in question. Nor was his selection a direct expression of the people’s wishes, despite the MPR being referred to as the People’s Congress. This presidential certainty reinforces the notion of government being less-than-democratic and one earning its reputation as an authoritarian regime.

Four days later, Soeharto announced his new cabinet. The responsibility of the government to strive for accountability could have been shored up at this point with the selection of appropriate and ‘clean’ ministers. However this was not to be the case. Soeharto selected B.J. Habibie as his Vice-President thereby throwing out the tradition of selecting a man either direct from the military command, or sympathetic to ABRI’s *dwifungsi* (military/society-political) role. Habibie is neither military trained or supported. Habibie was formerly the Minister of Technology responsible for the key industries still under state control (oil, steel, ships and aircraft). Habibie was also known as a crony of Soeharto<sup>13</sup>, and is considered as a “dreamy technocrat who’s short on political and economic savvy.”<sup>14</sup>

Had Soeharto restricted the patrimonialism to Habibie only, then the issue of government accountability to the people may not have eventually become so crucial in the political crisis. However accusations of patrimonialism erupted in Jakarta as Soeharto also appointed to cabinet his high-profile daughter Siti Hardiyanti Rukmana (Tutut) as Minister for Social Affairs, and equally well-known close associate Bob Hasan (aka The Kim Seng – the first Chinese-Indonesian ever selected for cabinet) as Minister for Trade and Industry.<sup>15</sup> The seventh cabinet under Soeharto’s tutelage was

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<sup>13</sup> For example, in 1994 President Soeharto funnelled approximately US\$185 million into the national aircraft industry, under Habibie’s control, from the MoF (M. Cohen, “Culture of Awareness: People are taking more interest in their surroundings”, *Far Eastern Economic Review*, 17 November 1994, p. 44.).

<sup>14</sup> J. McBeth, “Soaring Ambition”, *Far Eastern Economic Review*, 29 January 1998, p. 14.

<sup>15</sup> Tutut and Hasan were not the only new cabinet ministers known to have patrimonial links to the President and the business empires of the first family. Individuals such as Hartono (Interior), Bawazier (Finance), Soemadyo (Works), and others, are suspected or known to have strong links, and were selected for the 40-odd member cabinet.

weighed down by the presence of such close cronies and family<sup>16</sup>, and failed in the eyes of the Indonesian people to deliver accountable governance.<sup>17</sup> The result in the weeks that followed was spontaneous protests by students and civilians alike demanding political reform.

Turning to the economic crisis specifically, accountability to the IMF by the government was also an important consideration for the people of Indonesia. Shortly after his reinstatement as President, Soeharto was seen to want to renege on the previously agreed reforms as part of the US\$33 billion IMF bailout. Officially, Soeharto declared “that the reforms do not accord with Indonesia’s constitution.”<sup>18</sup> Indeed, Soeharto was of the opinion that such was the size and stature of Indonesia that the IMF would never let it fail, and so the bailout could be extracted from the fund under more lenient and user-friendly terms.<sup>19</sup> Unfortunately for the New Order, this move was interpreted by the Indonesian people as yet another example of the government engaging in risk-taking behaviour to favour the cronies who would be economically hurt most by the IMF reforms.

Favouring policy to maintain the privileged position of the large entrepreneurs finally withdrew any notion of accountability by the New Order or an organic relationship between state and society for the people of Indonesia, as the tradition of largesse fired the embers of racial tension between the *pribumi* population and the small Indonesian-Chinese community. In essence, entrepreneurs and cronies in Indonesia are seen as largely emerging from the small Indonesian-Chinese community and controlling the majority of the nation’s economy at the expense of the larger *pribumi* population. Indonesian-Chinese own nine of the 10 largest conglomerates, they control 80% of the assets in the top 300 companies, and of the top 15 taxpayers, 13 are Indonesian-Chinese (the other two are the sons of Soeharto, Bambang and Tommy).<sup>20</sup> This social cleavage is also expressed in religious terms as being between Muslim (*pribumi*) and Christian/Buddhist (Chinese-Indonesians). During this crisis the cleavage was shortened to ‘us’ (Muslim/*pribumi*) and ‘them’ (other religions/Chinese-Indonesian).<sup>21</sup> Regardless of the terminology, the legitimacy of the New Order regime was steadily eroded as it was not seen as capable of controlling either the division in society that had been portrayed as working consensually for the good of the nation, or the increasing social violence between the groups.

<sup>16</sup> J. McBeth, “Family and Friends”, *Far Eastern Economic Review*, 26 March 1998, pp. 20-22. For a list of the cabinet appointments and the minister’s political affiliations, see supplementary table “Suharto’s Cabinet”, p. 21 of the same article.

<sup>17</sup> M. Cohen, “Campus Crusaders”, *Far Eastern Economic Review*, 26 March 1998, pp. 22-26.

<sup>18</sup> S. Tripathi, “Stand-Off in Jakarta”, *Far Eastern Economic Review*, 19 March 1998, pp. 18-19.

<sup>19</sup> According to Tripathi, Soeharto takes great pride in being known as Bapak Pembangunan (father of development), “but the onset of the economic crisis has made a mockery of his regime’s singular achievement” (*Ibid.*, p. 18.) and so the psychological need to ‘save face’ was a motivator for Soeharto’s actions.

<sup>20</sup> S. Tripathi and B. Dolven, “Shattered Confidence”, *The Far Eastern Economic Review*, p. 21.

<sup>21</sup> See M. Cohen, “‘Us’ and ‘Them’”, *Far Eastern Economic Review*, 12 February 1998, pp. 16-17.

## Transparency of operations

A lack of transparency in the Indonesian bureaucracy has been a long-standing issue of concern for analysts of the Indonesian polity. For a government to ensure that economic development will be sustainable and robust, it needs to ensure that the governance functions of its bureaucracy are clean and transparent. Failure to do so will mean, in the short term, an inability to implement policy, and policy reforms, effectively or efficiently. Over the longer haul, the lack of transparency creates a rigidity that precludes responsiveness in the structural framework of the bureaucracy to strategic and structural shifts in the economy.<sup>22</sup>

The World Bank targeted transparency in the bureaucracy in a 1993 analysis of the Indonesian economy. To encourage transparency and promote better governance the Bank isolated five areas of the bureaucracy that needed reform:

- Strengthening the legal, judicial and accounting institutions underpinning markets to foster efficiency, transparency and wide participation in private sector development;
- Reforming public enterprises by implementing an appropriately designed program of divestiture of enterprises engaged in the provision of private goods and by commercialising as much as possible the operation of those that need to remain public;
- Reassessing and realigning government administrative structures and the skills and incentives of the civil service, to adapt them to the changing focus of government functions and to improve the quality of governance;
- Improving the efficiency and equity of public service delivery through decentralising responsibilities to local governments and reforming central-local fiscal relations, supported by an enhancement of local government institutional capacities;
- Building institutional capabilities for environmental management at the central and local levels, including promoting effective participation of local communities.<sup>23</sup>

There did not seem to be any improvement in transparency over time. In 1997, another World Bank publication noted complaints from the Bank of Indonesia that claimed a “lack of transparent, predictable and enforceable rules for business...[and] malpractices in state procurement, [and] the allocation of licenses and tendering processes for infrastructure contracts.”<sup>24</sup> Complaints such as the Bank of Indonesia’s, and calls for greater transparency from within the nation meant that Indonesia’s bureaucracy was, at the time of the crisis, feeling the effects of a rigid structural framework. This meant that the bureaucracy was not able to respond to the sudden economic shift of 1997. Consequently, nor was it able to respond effectively to the political crisis of 1998.<sup>25</sup> In essence, the bureaucracy and institutions were experiencing tensions between Western concepts of modernity and regulations

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<sup>22</sup> World Bank, “Indonesia: Sustaining Development”, Report No. 11737-IND, 25 March 1993, p. 135.

<sup>23</sup> Ibid., pp. 135-136.

<sup>24</sup> World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, New York, 1993, pp. 135-64, and World Bank, “Indonesia: Improving Efficiency and Equity – Changes in the Public Sector’s Role”, Country Department III, Jakarta, 1995, pp. xv-xvii, cited in G. Rodan, K. Hewison, and R. Robison, *The Political Economy of South-East Asia*, Oxford University Press, Oxford, 1997, pp. 11-12.

<sup>25</sup> For information on the rigidity of the banking sector, see H. Sender, C. S. Lee, “Rotten to the Core”, *Far Eastern Economic Review*, 2 April 1998, pp. 14-16.



designed by a political framework operating (within traditionalism) to reinforce the economic and political power of the elite.

### Good leaders and leadership

Not so long ago, opinions of Soeharto would hail his achievements and incorporate terms such as *Bapak Pembangunan*. Overall Soeharto was seen, despite (or because of) the authoritarian nature of the New Order regime, as a strong and capable leader who had successfully negotiated internal stability and external security, while all the time setting the nation on the road to economic affluence.

But of late, there was increasing criticism of Soeharto as a person and his leadership abilities. From the 1980s his family businesses were discussed increasingly in the media, and the tax-free 'charitable foundations' (*Yayasans*) the family members controlled were criticised as a source of funding for the family.<sup>26</sup> More recently descriptions of Soeharto and his leadership began to include less-than-flattering descriptors, for example "Suharto's crony-ridden regime"<sup>27</sup>, "beleaguered"<sup>28</sup>, "fatigued" and "images of the 76-year old president shuffling around his garden, talking to birds and posing shakily...rumours that he had suffered a mild stroke"<sup>29</sup>. Soeharto's declining popularity encouraged student protests immediately after his reappointment to denounce his continued rule. The protest was the largest of the last two decades, and included an estimated 20,000 people.<sup>30</sup> Soeharto's legitimacy as the national leader was in free-fall at this point indicating an escalation in the political crisis of 1998.

Good governance through good leadership could have still been delivered at this point had the selection of vice-president been a show of political strategy with the appointment of a politically seasoned and respected man supported by both the military and the people. Habibie was not that man. Habibie was seen as an educated man who was also politically inept, but had the political patronage<sup>31</sup> to propel him to the apex of political power in Indonesia. Unfortunately for the legitimacy of the New Order, it was such a notion of patronage that was also at the heart of people's dissatisfaction with the Indonesian polity and economy. Habibie's appointment to vice-president only served to contribute to an impression of less-than-good governance.

<sup>26</sup> See, for example R. Robison, "Indonesia: Tensions in State and Regime", K. Hewison, R. Robison and G. Rodan, *Southeast Asia in the 1990s*, Allen and Unwin, St. Leonards, 1993, p. 48.

<sup>27</sup> D. D. Parker, "People Power", *The Australian Magazine*, 6-7 June 1998, p. 15.

<sup>28</sup> J. McBeth, "Suharto's Way", *Far Eastern Economic Review*, 26 March 1998, p. 19.

<sup>29</sup> M. Cohen and S. Tripathi, "Waiting Game", *Far Eastern Economic Review*, 25 December 1997 and 1 January 1998, p. 14.

<sup>30</sup> Cohen, "Campus Crusaders", p. 22.

<sup>31</sup> Habibie and Soeharto were/are mutual admirers. As one analysts noted, Habibie "writes down much of what the president tells him...[and]...called Suharto 'SGS'...Super Genius Suharto." J. McBeth, "Mutual Admirers", *Far Eastern Economic Review*, 29 January 1998, p. 15.

## Efficient use of resources

Efficient use of resources is necessary if sustained development and good governance is to be assured. A World Bank report explored this relationship in detail; its findings are presented here in short:

Growth, equity and environmental protection are all necessary ingredients of sustained development. Strong synergies exist among them. Growth generates the employment and increase in resources necessary to reduce poverty and improve environmental management. Equitable development broadens the base of growth and reduces poverty – a major source of pressures on the environment. Protection of the environment fosters efficient, long-term growth and benefits the poor who tend to suffer most from environmental degradation...effectively integrating the objectives of growth, equity and environmental protection is the crux of sustained development. It calls for a long-term vision of development, and policies...”<sup>32</sup>

For many years the New Order focused on growth in the name of equity (or poverty elimination), but often at the cost of the environment. For example, forest resources have been plundered since the very beginning of the New Order, often with concessions granted to those who supported the regime most.<sup>33</sup> In addition, the ‘fire haze’ that has shrouded western Indonesia is symptomatic of the abuse of forestry resources in 1997/98 in the name of rapid development. Indeed, the ‘haze’ acted as a metaphor for the economic and political crises engulfing the nation and the region; the haze billowed across the areas under increasing economic and political pressure, but with Jakarta as the hot spot. As the smoke ‘haze’ increased towards the end of 1997, so the economic crisis deepened. In September as 300,000 hectares of land burned uncontrolled<sup>34</sup>, the Ministry of Forestry was called on to support the Rupiah in the economic crisis.<sup>35</sup> By October the first IMF rescue package for Indonesia was announced, and the government declared the fire crisis a national disaster.<sup>36</sup> In November as the scheduled rains failed to deliver the volume of water needed to quench the fires in the forest, the economic turmoil forced the closure of 16 national banks and the value of the Rupiah began its phenomenal tumble.<sup>37</sup> All in all, as the smoke thickened, so the economic crisis deepened, as did the clouds of the political crisis.

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<sup>32</sup> World Bank, “Indonesia: Sustaining Development”, p. viii.

<sup>33</sup> See A. Cullen, “Representing the Environment and Society: Targeted Pluralism in the Forestry Sector of Indonesia”, Unpublished Ph.D thesis, Griffith University, Nathan, November 1997, especially chapter three.

<sup>34</sup> See, for examples of the lack of control in the forestry emergency “Fires dash 300,000ha of forests”, *The Indonesia Times*, 1 September 1997. For entrepreneur involvement, see “80% of forest fires caused by plantation firms”, *The Jakarta Post*, 2 September 1998.

<sup>35</sup> About Rp.4000billion (US\$142 million) was given from the reforestation fund to the Bank of Indonesia to shore up the rupiah. “Forest funds to help rupiah”, *The Jakarta Post*, 5 September 1997.

<sup>36</sup> H. Roeslan, “Greed Takes our forests, and the world knows”, *Indonesian Observer*, 10 October 1997.

<sup>37</sup> By 26 November 1997, the Rupiah was valued at 3,650/60. By January the Rupiah reaches a record-breaking disastrous 17,000/US\$.

## Rational policy and decision making

Rational policy making is a subjective notion. However in relation to good governance, rational policy making should be interpreted as that done in the national interest by way of a strong government, especially in times of crisis. Unfortunately for Indonesia the New Order, or more precisely Soeharto, was not seen as rational or strong in the lead-up to the political crisis. In the first instance he, his family, and other business cronies were seen as a major problem because of their dominance in the national economy, at the cost of the majority of Indonesians and development. The acts of favouritism that created the nepotism were now taking their toll, “economically the many trading privileges and exclusive licences awarded Suharto family interests is taking a huge toll in efficiency – requiring even more privilege and protection to keep it afloat.”<sup>38</sup> As a result the legitimacy of the development achievements of the *Bapak Pembangunan* were under the microscope, especially since the recipients of the largesse were want to flaunt their wealth and privilege. As the political crisis loomed, the excesses and brazenness of this privileged group became a barometer of government legitimacy – the measure increasing or decreasing depending on the state’s ability to implement policy to restrain and control the cronies and the propensity of the government to award monopolies and exclusive licences to the favoured few. However, the New Order under Soeharto’s leadership was seen to fail consistently in this indicator of legitimacy as, for example, “a plywood monopoly meant for the axe survives, and monopolies continue to grow [and] an exclusive new water-supply contract was...given to Suharto’s grandson, Ari Sigit.”<sup>39</sup>

At the same time, rational policy making was seen to be cast out the window with the plan to establish a currency board to peg the rupiah to the US dollar.<sup>40</sup> Seen as a Soeharto initiative, the policy flew in the face of the IMF recommendations, and led to a standoff between the president and the IMF.<sup>41</sup> Under the plan, local supplies of the Rupiah would be linked to Indonesia’s supply of US dollars. If the domestic demand for US dollars was high (because the Rupiah was not seen as an appropriate investment), and then the reserves of the Rupiah would dwindle, forcing up interest rates and creating a higher deposit rate, thereby making the Rupiah more attractive as an investment. The IMF, regional governments, and the global financial community viewed the proposed policy with shock. The IMF believed the currency board to be a direct challenge to its prescription of an austerity program. The neighbouring governments feared a destabilising contagion in the region as “the world views the region as a single unit.”<sup>42</sup> The global community threatened to abandon Soeharto, much like the financial markets already had. All in all, the currency board policy diminished support for Soeharto and his ability to formulate and implement rational policy.

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<sup>38</sup> Editorial, “In a Family Way”, *The Far Eastern Economic Review*, 20 November 1997, p. 5.

<sup>39</sup> S. Tripathi, “Hankering for a Peg”, *The Far Eastern Economic Review*, 26 February 1998, p. 62.

<sup>40</sup> *Ibid.*, pp. 61-62.

<sup>41</sup> The IMF threatened to withdraw the US\$33 billion bailout if Soeharto proceeded with the plan inspired by Steve Hanke, a US-based economist.

<sup>42</sup> Tripathi, “Hankering”, p. 61.

On 22 January 1998 the markets totally abandoned Soeharto (following pronouncements about the currency board and the negotiation of a second IMF package) as he announced Habibie as his potential vice-president. At this point all Soeharto's personal credibility seemed lost, as did New Order legitimacy, as the Rupiah fell to a nation-destroying 17,000/US\$.

On a national level, the people were more concerned with the immediate needs of securing a job and wage that would allow them to cope with the inflation that was tearing at the fabric of Indonesian society. Unemployment soared (estimated at 10 million in Jakarta alone) and the prices of goods skyrocketed – essentials such as rice and oil were increasingly scarce and rose in price by 40%, while powdered milk rose by 400%. By January 1998 begging had increased in the capital by the newly displaced, and stories of mass targeting of Indonesian-Chinese homes for handouts of food were common.<sup>43</sup> The policies that precipitated such a rise in unemployment, high prices and begging (and encouraged hoarding by those who could afford to), were seen as less-than-rational by ordinary Indonesians, thereby setting the stage for the political unrest that followed.

### **No personal agendas**

Did Soeharto have personal agendas in government and throughout the crisis? It certainly appeared so. The more appropriate question here is, was Soeharto's personal agenda in the national interest and did it correlate with the agenda of the majority of Indonesians? The first part of that question is somewhat less easy to answer than the second part.

Initially Soeharto's personal agenda was seen as being in league with the national interest, he was after all the "man who led Indonesia out of abject poverty and political turmoil of the 1960s into an era of high economic growth by the early 1990s."<sup>44</sup> Under his leadership the nation's poverty levels dropped from 70% in the 1960s to about 15% in the 1990s. Economic growth was consistent and escalating from per capita GDP 4.3% annually in 1965-1988 to 7% from 1988-1997.<sup>45</sup> Self-sufficiency in rice production, a successful family planning program, increased literacy rates, and access to education for most, as well as many other human index indicators, are all testaments to the work of the *Bapak Pembangunan*. This is the legacy Soeharto wanted for his political eulogy.

Clearly, other personal agendas have also long been a defining characteristic of the Indonesian polity. Cronyism and nepotism cannot exist otherwise. Soeharto was not only viewed as the national leader, he came to be seen as the pilot in political and economic activities that favoured the few, and the patriarch of "the First Family [who] have a smorgasbord of business alliances with Indonesian-Chinese interests."<sup>46</sup> When the political crisis finally arrived there was certainly a focus on these alliances. At

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<sup>43</sup> Observation based on discussions held with informants in Jakarta in January 1998.

<sup>44</sup> M. Vatikiotis and A. Schwarz, "A Nation Awakes", *Far Eastern Economic Review*, 4 June 1998, p. 23.

<sup>45</sup> *Ibid.*, p. 23.

<sup>46</sup> Tripathi and Dolven, "Shattered Confidence", p. 21.

that time Soeharto's personal agenda had become one of protecting his family. Understandably, in post-crisis Indonesia, even had Soeharto survived as president, the fortunes of the first family would have been severely diminished. And, as was finally the case, if Soeharto was forced from government, then the first family would have to cope with a corresponding fall from political might, which would also seriously hamper their ability to strong-arm their way into lucrative business opportunities. Consequently one of the primary concerns of the president was the physical and economic security of his family. It had become clear in the lead up to the political crisis that the first family and the wealthy Indonesian-Chinese were going to bear the brunt of the people's frustration.

Soeharto's personal agendas throughout his rule were also closely related to his reluctance to resign when the political crisis was at its height. The *Bapak Pembangunan*, the man who had consistently been attributed as manipulating the Indonesian polity and the political fates of all Indonesian political identities - much as the *dalang* controls the wayang puppets in a shadow play - was loath to relinquish his power when it was at such a low ebb. According to one scholar, Nurcholis Majid, "he wants to die in office in glory. The hardest thing for Soeharto to imagine is dying in disgrace."<sup>47</sup> The challenge Soeharto faced in the months preceding the May political crisis was to convince his domestic constituency as well as the international community that his personal agenda reflected the measures necessary turn around the economic fates of the nation. In essence, he needed to show positive gains in the economy before the coffers ran dry, and he needed to regain his crown as the man in charge. Soeharto is a man used to calling all the political shots in Indonesia, and acting unpredictably<sup>48</sup> to maintain his political power and legitimacy, but these character traits only issued confused and conflicting signals to an already panicked market. Soeharto failed to assure the IMF that he was ready to share economic and political control of the nation. Moreover, he was unable to convince the people that his personal agenda was truly that as the *Bapak Pembangunan*, a man willing to sacrifice political and economic protection of his family and cronies for the good of the people.<sup>49</sup> This only served to withdraw further any remaining political legitimacy of the Indonesian people. In essence, the president was unable any longer to convince the people of Indonesia that the polity of his design was propelling the nation toward equality and modernity while maintaining essential Indonesian-ness.

Soeharto's determination in the early years of the New Order to have control over every aspect of political life in Indonesia now meant a weakened bureaucracy, and a political vacuum with no strong political institutions or mechanisms for easy reform. However the call by the Indonesian people for reform was too strong to be ignored. The Soeharto-led initiative to install a board for reform came too late. The people of Indonesia, the bureaucrats, and the political insiders all recognised that the board was a strategy for the president to buy time to show that his personal agenda was commensurate with the national interest. As a result, the board was interpreted as a

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<sup>47</sup> McBeth, "Suharto's Way, p. 18.

<sup>48</sup> Ibid., p. 18.

<sup>49</sup> See S. Tripathi, "Children of a lesser God", *Far Eastern Economic Review*, 4 June 1998, pp. 66-69.

stalling mechanism only to ensure that Soeharto's personal family-led agenda could be consolidated. The people of Indonesia demanded better of their president.

### Fairness

Fairness is one of those terms that mean so many different things to many different people. For the New Order government fairness was highly subjective. Fairness to whom and under what circumstances? For good governance, fairness should mean the right of all citizens to expect their government to create an ideological framework that treats all citizens equitably while leading them into modernity. However in Indonesia this was often not the case. As many orthodox analysts of the Indonesian polity have concluded, the New Order marginalised the politically weak within its authoritarian framework, and the only distribution of political largesse (or political fairness) occurred among the rival factions and cliques lodged near the apex of political power.<sup>50</sup>

As tensions grew in Indonesia in 1998, fairness became an essential issue in the political crisis. The Indonesian people, those known as the 'floating mass', saw their lot, as it was prescribed by the Indonesian bureaucracy on behalf of the political elite, as being particularly unfair. The IMF reforms, as agreed to by their president, hurt them immediately with sharp increases in the cost of basic commodities. Their pride was stung further when consumers decrying the soaring cost of chicken, heard the president's daughter and now Minister of Social Affairs, Tutut, advise, 'let them eat rabbit.'

Alternatively, political opposition identities were calling for equity for all Indonesians in political, economic and social matters. Personalities like the Muslim leader Amien Rais came to typify the demands of the Indonesian people. Their call was, in contrast to the government's, seen as pure and coming from the heart of every Indonesian. They demanded a government that spoke to all Indonesians, not the select few. The student and religious leaders emerged from an embattled middle-class clinging onto the ideals and aspirations of that class, such as greater economic development and a modicum of democracy. In addition, and for the first time in Indonesia, these same leaders championed those in the lower classes that were failing to cope with the economic crisis crippling the nation.<sup>51</sup> For the lower classes, and increasingly the middle-class, members from their own depoliticised group were demanding a basic right to sustenance and dignity.

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<sup>50</sup> For example, see F. W. Riggs, *Thailand: The Modernization of Bureaucratic Polity*, East-West Centre Press, Honolulu, 1966; K. D. Jackson, "Bureaucratic Polity: A Theoretical Framework for the Analysis of Power and Communications in Indonesia", in K. D. Jackson, and L. W. Pye (eds.), *Political Power and Communications in Indonesia*, University of California Press, Berkeley, 1978; and H. Crouch, "Patrimonialism and Military Rule in Indonesia", *World Politics*, Vol. XXXI, No. 3, April 1979.

<sup>51</sup> Before the economic and political crisis, the middle class rarely championed the under-classes (except for few Non-Government Organisations and their employees) as they were prepared to tolerate the corruption and cronyism at the top of politics so long as their economic situation maintained a steady rise upwards.

As the economic crisis deepened, calls for '*reformasi*' became commonplace on university campuses and in religious gatherings. Then, as the New Order responded to the increasing social unrest by "copying Latin dictators by kidnapping student leaders, torturing them, and then releasing their intimidated victims"<sup>52</sup>, the protests called for reform wider than economic amendments. They demanded their government display fairness to the common person with a total overhaul of the political and bureaucratic system. In essence, the people were calling for the rights of the individual.<sup>53</sup>

### Professionalism

In relation to the political crisis and the notion of poor/good governance, professionalism may be seen to be wanting in two main areas of government. First, the Indonesian bureaucracy has been charged with the responsibility of the notion of a populist ideological tradition.<sup>54</sup> This means bureaucrats should have an externally endorsed and internalised pressure to put the needs of the *rakyat kecil* (little people) first in policy making. Indeed, analyst William Liddle contends the ideology "defines the universe of political discourse in which all Indonesians live."<sup>55</sup> So in instances where policy is being proposed or implemented and which has the possibility of further concentrating resources and political power in the hands of the already privileged few, populism should act to reverse that trend and make the policies more equitable to the 'little people'. Policies in Indonesia, however, have been seen to favour predominantly the cronies and relatives of the elite.<sup>56</sup> As a result there has been a build-up of tensions between the notion of organic state/society relations as used in the Asian values discourse, and the reality of economic and political marginalisation of the *rakyat kecil*. To take one economic sector as an example, the forestry sector of Indonesia has long been noted as the domain of Bob Hasan who is also recognised as a crony of Soeharto. He has been the Chair of all timber, forestry and production related organisations and although he was not a member of the bureaucracy until the 1998 cabinet appointments, he was thought of as the 'real Minister of Forestry'. Hasan's close association with the Ministry of Forestry was unprofessional because, among other practices, Hasan had a habit of writing policy on behalf of the government, a practice well known in Jakarta at all levels of government and in the private sector.<sup>57</sup> Unprofessionalism was more widely evident as I discovered in an interview with the Deputy Executive President of APKINDO (*Asosiasi Panel Kayu Lapis Indonesia* - Wood Panel Association of Indonesia), Asmaning Tjipto Wignijopratinno and APHI (*Asosiasi Pengusaha Hutan Indonesia* - Association of Indonesian Forestry Enterprises), Hendro Prastowo, in Jakarta in 1993. Both men

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<sup>52</sup> Parker, "People Power", p. 17.

<sup>53</sup> Personal and confidential communication with author from a long-time expatriate resident of Jakarta, 19 May 1998.

<sup>54</sup> For a more comprehensive discussion of this notion see, R. W. Liddle, "The Politics of Shared Growth: Some Indonesian Cases", *Comparative Politics*, Vol. 19, No. 2, 1987, pp. 127-146.

<sup>55</sup> *Ibid.*, p. 144.

<sup>56</sup> While populism does work to reverse policy tendencies to concentrate wealth and power in the hands of the few, there are few studies to show how this might be the case. But for this alternative interpretation of Indonesian politics, see Liddle, "The Politics of Shared Growth", MacIntyre, *Business and Politics* and Cullen "Representing".

<sup>57</sup> See Vatikiotis, *Indonesian Politics*, p. 14.

concluded that the MPI (*Masyarakat Perhutanan Indonesia* - Indonesian Forester Association) worked very closely with the government on all forestry policy decisions, and that only policy and legislation agreed to by MPI are ever ratified. For as long as individuals outside the bureaucracy were allowed to dominate Ministry policies, unprofessionalism remained a chronic problem for the New Order government eventually, contributing to the withdrawal of legitimacy by the people of Indonesia – the very people who the government and the bureaucracy were ideologically bound to protect.

Second, professionalism in the New Order government and its bureaucracy was consistently challenged because of its need to maintain an alliance with ABRI. Under *dwifungsi* the military held a special position in government as it pursued matters mercantile and military. So with the special position came special privileges, for example, business opportunities and monopolies to advance both personal fortunes and military coffers. Transparency of operations in these arrangements was not always a priority, further removing professionalism.<sup>58</sup> In addition, as the economic crisis deepened and the political crisis loomed, Indonesian-Chinese businessmen turned to their ABRI business partners for protection. The public airing of these alliances has led to charges of subversion against ABRI by the Indonesian people, who view ABRI's support of corrupt (ethnic-Chinese) businessmen as contrary to ABRI's claim to be the conscience of the nation and the army of the people.<sup>59</sup> Increasingly ABRI has been seen as anything but the champion of the *rakyat kecil*. In 1993 ABRI officers were charged with the rape and torture of Marsinah, a labour activist working to improve the condition of basic-wage Indonesians. At the height of the political crisis of 1998, snipers under the control of Lieutenant-General Prabowo (who was personally against any political reform and Soeharto's son-in-law) were accused of targeting the Trisakti University students, as "almost all the victims, killed and wounded, were shot in head, neck, chest or back."<sup>60</sup> These acts, and others, have removed any public notion of ABRI acting professionally or exclusively in the interests of the people of Indonesia.

### Checks and balances and control mechanisms

The existence of checks and balances and control mechanisms for good governance has long been disputed in Indonesia. In the arena of law and the lack of good governance, Vatikiotis notes:

...the legal system is now considered the area most in need of urgent reform...ironically. Legal reform was a major aim of the New Order, when it came to power...attempts have been made to improve judicial procedure...but old attitudes and most of the old Dutch statutes on which law is based, remain entrenched. The fact that the Dutch laws were designed by the colonial authorities to enhance administrative power and control has perpetuated their usefulness. Use of Dutch precedents has by all accounts increased under the New Order.<sup>61</sup>

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<sup>58</sup> S. Tripathi, "Merchants in Uniform", *Far Eastern Economic Review*, 5 February 1989, pp. 17-20.

<sup>59</sup> S. Tripathi, "Friends in Need", *Far Eastern Economic Review*, 5 February 1989, p. 20.

<sup>60</sup> K. Richburg, "Indonesia's Unintentional Martyrs", *Washington Post Foreign Service*, 8 June 1998.

<sup>61</sup> Vatikiotis, *Indonesian Politics*, pp. 48-49.



Therefore, while the laws of Indonesia ensure state control over the legislature, the constitution delivered all power and responsibility for government and polity to the President. As a result, the New Order has stifled any active or institutionalised political opposition, by being responsible for the limitation of any other political party organisation. These constitutional and legalistic actions of the New Order, therefore, give credence to the notion of many different paths to modernisation as argued in the Asian values discourse: Indonesia was on a rapid path to modernisation, but its progress did not mirror the experiences of Western nations.

Opposition by the 'little people' had largely been eradicated by the depoliticising of the 'floating mass' and by "imposed rigid ideological uniformity of society."<sup>62</sup> Moreover, if for some reason, the institutionalised control of government over the people and national organisations failed, the state could always regain control by calling on ABRI to provide the support promised by *dwifungsi*. In any worse case scenario, and in matters of internal security, ABRI remains above any rule of law, check or balance.

One institution established in 1993, under the auspices of the New Order to act as the watchdog of government oppression of the people, was the Human Rights Commission. The commission has little real power, except that of persuasion and intimidation, and so has been seen as a regime-legitimising act. Nonetheless, the commission has gained a reputation of taking on public positions against those of the government and calling for equitable settlement of mainly non-political legal cases. But like so many other institutions and enterprises in Indonesia, to get its job done the Commission "relies on personal connections to influence officials...creating doubt about the body's objectivity and independence."<sup>63</sup> Consequently its ability to act as an agency of political and legal checks and balances, in the spirit of good governance by the New Order, was severely undermined.

Attempts to instigate agencies to act as a check and balance mechanism in the midst of the economic crisis also failed in Indonesia because of the normalised control of the office of the president. For example, as required by the IMF, an agency was established to reform and prevent political interference in the banking sector. But the independence of the agency was questioned in regards to its staffing. Ideally one third was to come from the central bank, one third from the Ministry of Finance and the last third from various state banks. However, "only weeks after the agency was created, Suharto dismissed its boss. No official reason was given, but a report by Jardine Fleming Nusantara in Jakarta said he was sacked for attempting to promote transparency."<sup>64</sup> Any further checks or balances in the banking sector had been successfully thwarted.

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<sup>62</sup> Ibid., p. 105.

<sup>63</sup> F. Ching, "Indonesia: A Rights Update", *Far Eastern Economic Review*, 27 October 1994, p. 48.

<sup>64</sup> Sender and Lee, "Rotten to the Core", p. 16.

Good governance demands that checks and balances be normalised in government and political institutions, and the inability to instigate such control mechanisms highlights the New Order's inherent propensity to less-than-good governance.

### **Participation of the people**

Finally, good governance demands the participation of the people in government. In other words, democratisation. But this means a corresponding level of individualism as opposed to collectivism as needed by government deploying the Asian values discourse as a source of power and control. Indonesia was largely undemocratic with an authoritarian regime unwilling to listen to, or accept the will of, the people for a greater role in the polity of the nation. Indeed one could argue that the bulk of Indonesian people were largely reconciled to their depoliticised position, so long as the *Bapak Pembangunan* continued to deliver national development in individual relative prosperity. But by January 1998, the Rupiah had been devalued by 50% and the *El-Nino* associated drought threatened crops. Inflation and unemployment were also rising. As a result, both rural and urban Indonesians feared for their future personal and national prospects. Anecdotal evidence suggests that up until late last year rural Indonesians carried the double burden of the economic downturn and the effects of the drought on their immediate income generating potential.<sup>65</sup> However urban people were increasingly feeling the effects of not only the economic crisis but also the pressure of unemployment and scarce resources as urban migration escalated. In addition, neither the rural nor the urban people felt they could change the political status quo through corporatist or traditional consensus mechanisms. Having depoliticised the people for the last 35 years now meant the Indonesian polity no longer supported the devices for public disgruntlement or protest – let alone participation. Consequently, the tensions between the state and the people widened. The Indonesian people no longer accepted that the supposed 'Asian way' served their needs best. No longer were they willing to tolerate falling personal fortunes and limitations to their participation in the political process.

Beginning with campus-based student protests across the nation and protests of ordinary Indonesians in urban and rural centres, the political crisis escalated in early 1998 as a direct result of the lack of participation of ordinary people in the political processes. In other words, the illiberal programme of control exerted by the New Order, had been at the cost of liberal notions of individualism and universalism. Soeharto's challenge at this time was clear; he needed to reform the economic sector to appease the international financial community and he also needed to regain the confidence of the Indonesian people to avoid social unrest. The Indonesian political crisis eventuated because he failed on both accounts. In all likelihood there was no real chance of success. The pace of events overtook the political capacity of the president.

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<sup>65</sup> M. Cohen, "Unlucky Country", *Far Eastern Economic Review*, 25 December 1997 and 1 January 1998, pp. 14-18.

## Conclusion

By May 1998 the coalition of pro-reform activists drawn from society, the bureaucracy and the military, realised that the tensions between the state and people had reached breaking point. Soeharto and the New Order were seen by the people of Indonesia as a government that had broken its contract with society: a contract that promised a secure path toward development and modernisation while maintaining those cultural qualities that were uniquely Indonesian. Under this contract, the New Order had developed a style of governance that did deliver modernisation and development but at the cost of a highly regulated and largely depoliticised society, managed under the ideology of control according to governance on 'Asian values'. Reformers throughout the nation called for a new government on broad-based representation of the people. In other words, the people were demanding a framework of government ideology that broke away from the 'Asian values' ideology, and favoured more liberal tenets of governance. In the case of Indonesia in May 1998, this meant the dismissal of Soeharto as he came to embody all that had been inadequate in the New Order-old style of governance. As one long-term resident analyst noted "you can see that this is a mass movement that goes well beyond prices. Suharto has to go, that is the bottom line. Anything else is unacceptable."<sup>66</sup>

The inauguration of B.J. Habibie as the third Indonesian President did not immediately promise to change the ideological framework of the Indonesian system of governance. However, in the following months there were indications that the governance contract between state and society was being renegotiated to incorporate more liberal tenets. For example, the release of (selected) political prisoners, the right to form political parties, and renewed arbitration on the political position of East Timor, all indicate a shift in the state/society contract aimed at easing the tension between the people and the preceding style of governance.

Good governance then, may be more than a simple insistence on transparency and accountability for governments and bureaucracies. Ideological frameworks, such as 'Asian values', that inform and contribute to the particularist style of governance of a nation, also need to be considered. In the case of Indonesia, moreover, what is most clear in the fall-out after the May 1998 political upheaval, is that this crisis originated with the supposed depoliticised people of Indonesia challenging the power over them by a professed monolithic government. They were thereby reversing the prevailing order so that it was no longer marginalising, nor self-legitimising.

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<sup>66</sup> Personal communication from an expatriate residing in Jakarta, 19 May 1998.