

# The Economist

A SURVEY OF INDONESIA

# THE EXTENDED FAMILY



# INDONESIA



## Two fathers: Sukarno and Suharto

THOUSANDS of teenagers pack into a sweaty Jakarta stadium to applaud an opposition political party; a brave few wave large photographs of the late, semi-disgraced, President Sukarno; and the sound system fails almost as soon as the Rastika rock group begins to play. The evening typifies modern Indonesia's mix of technical inefficiency and youthful frustration. Whether the mix is a serious or superficial threat to Indonesia's future is a question which should tax the nation's rulers—and their friends abroad. This survey will try to help with the answer.

Start by looking at the map (on next page). To go from Aceh, the Muslim-minded province on the north-west end of Sumatra, to the country's eastern border with Papua New Guinea is like going from Los Angeles to New York. The difference is that in between there are 13,667 islands, with people living on about 6,000 of them. And for all the "melting-pot" nature of America, it has nothing on Indonesia. There are Javanese, Sundanese, Balinese, Bataks, Sasaks and so on. They are just the Malay stock; in addition, there are Melanesians, Micronesians, Chinese, Arabs and Indians. Together, the Indonesians speak perhaps 300 distinct languages and dialects; cultures range from the deferential court-system of Java to the stone-age animism of Irian Jaya.

Look next at the population figures. At the last census, in 1980, there were 147.5m Indonesians; to-

day they number probably 168m. Some 100m of them live on Java, an island the size of Greece—which has only 10m people. These millions make Indonesia the fifth most populous country in the world (after China, India, the Soviet Union and the United States). Since two-fifths of Indonesians are under the age of 15, by the end of the century the population could top 220m. Each year, 1.9m young people join a workforce for whom work is harder and harder to find.

Finally, glance at the economic statistics. Indonesia makes its way in the world by selling oil and gas. But in its last financial year average oil prices (to which gas prices are linked) fell by almost half. This year, more than two-fifths of export earnings will be swallowed up by the need to service medium- and long-term foreign debt of \$42.6 billion (more if the yen strengthens against the dollar). Measured by income per head, living standards today are back where they were in the late 1970s.

In short, Indonesia is a perpetual fascination for anthropologists and a constant headache for its government. For western strategists—just imagine the implications for South-East Asia and Australasia of an Indonesia turning either to communism or Islamic fundamentalism—the country is a nagging concern. For a visiting journalist trying to understand the place, it has the intangibility of a mirage. If Indonesia did not exist, surely nobody would invent it.

Indonesia has more people than Japan and is blessed with unparalleled natural wealth. It should be an Asian superpower. Instead, it is introverted, uncertain—and deep in debt. Our South-East Asia correspondent, John Andrews, reports on the under-achiever

#### 4 SURVEY INDONESIA



That it does exist is due to a charismatic Javanese demagogue called Sukarno (the Javanese tend to use but one name, so no disrespect is intended). Sukarno grew up under the Dutch, who had arrived—in the wake of the Indians and Portuguese—in the East Indies in the early seventeenth century. With the arrogance typical of the European powers, the Dutch lumped the disparate islands together as a single colony from which to extract coffee, spices, rubber and oil. When the Japanese threw out the Dutch during the second world war, and when the allies threw out the Japanese, Indonesia could have fragmented into nations defined by race and geography. Why not the separate republics of, for example, Sumatra, Java, Borneo (Kalimantan) and the Celebes (Sulawesi)? They would be prosperous giants compared with some of the United Nations' impoverished pygmies.

Sukarno never entertained such thinking. From 1927, when he helped found the Indonesian National Party (PNI), he preached a nationalism which went beyond ethnic identity to embrace "all human beings who, according to geopolitics ordained by God Almighty, live throughout the entire archipelago of Indonesia from the northern tip of Sumatra to Papua."

The dream took time to realise. Independence was proclaimed on August 17 1945 but the Dutch did not admit defeat until December 27 1949—and did not hand over their part of New Guinea (West Irian, or Irian Jaya) until May 1 1963. Meanwhile, Sukarno assumed greatness. He virtually founded the non-aligned movement by hosting the Asian-African conference of 1955 in Bandung; he snubbed both America and Britain; he flirted with the Soviet Union and China; he mesmerised audi-

ences of thousands at home and abroad; and he delighted the scandal sheets with true tales of his sexual philandering. He created a nation—and left his successor to cope with the bill.

The president of Indonesia today is a Javanese general called Suharto, born 66 years ago to a humble family near the old royal capital of Jogjakarta. General Suharto has been in charge since 1965, when he quashed a communist-backed coup; he has

been officially president since 1968; he will remain so—health permitting—until at least the early 1990s, since there is no other candidate for next year's presidential election. It is easy, therefore, for western liberals to assume he is a dictator in the manner of South America's generals.

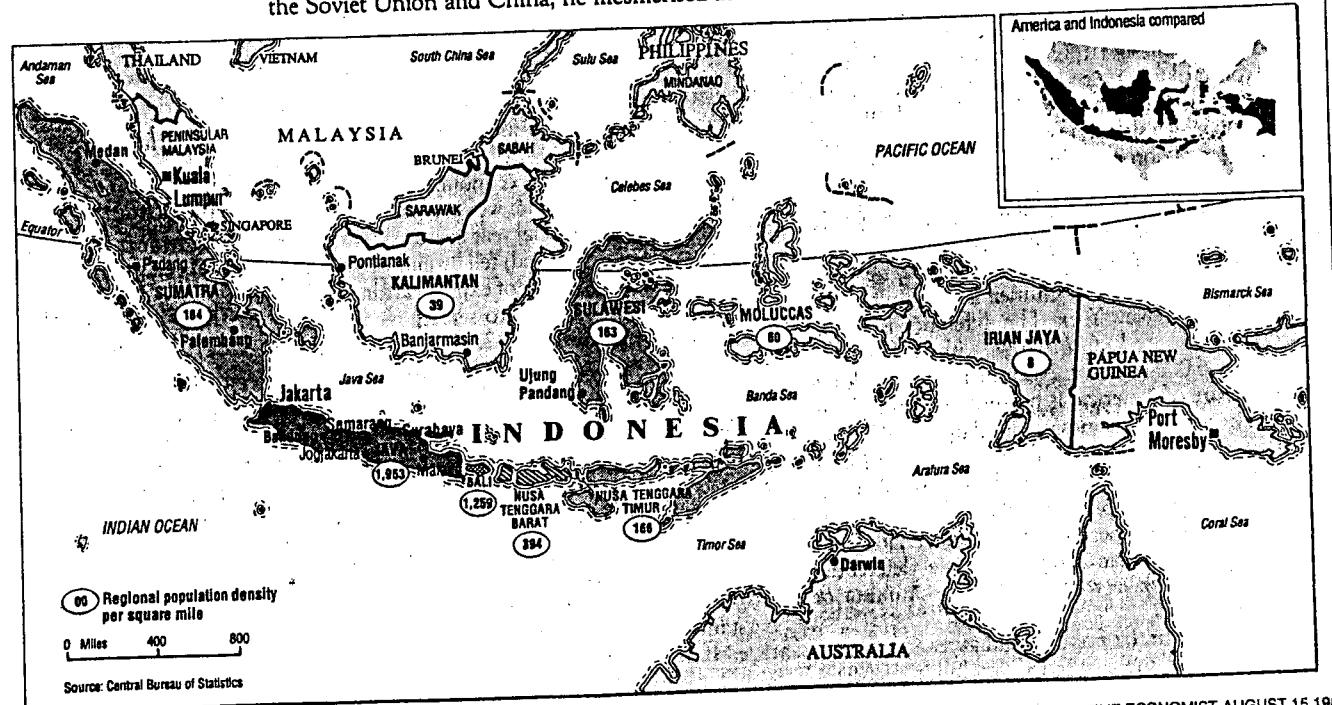
The assumption is logical, but it does scant justice to General Suharto. Loosen all the tight ties on Indonesia's political process, and "Pak" Suharto (the epithet means "father") would still be handsomely re-elected. His Indonesian critics concede he is at heart benign. The problem for western democrats is to admit that the bonds on the political process may have helped the nation. The problem for a growing Indonesia (of which more later) is how to slacken the bonds before they start to hurt.

Indonesians like to point up the differences between the two leaders of the independent era. As the economic train runs out of steam, the vindictive—including many too young to remember Sukarno—do so to flatter the past leader at the expense of the present one. The more sensible are simply trying to draw lessons.

The differences are clear enough. To the masses Sukarno was "Bung Karno": bung means comrade or brother, a relationship the reticent President



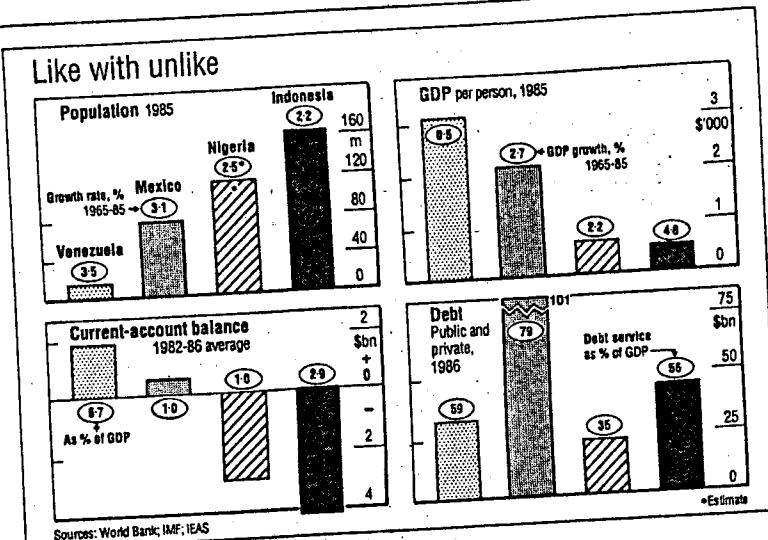
Puppet mastery



Suharto can never aspire to. From his earliest days as an anti-Dutch activist, Sukarno could play magically with language—not just to inspire the crowd but also to move his sceptical peers in the independence struggle. When he told people that nationalism, Islam and Marxism were all reconciled in "Sukarnoism", they believed him. With the Javanese, his rapport was almost mystical. By contrast, Pak Harto "always has to read his speeches", as one Sumatran Batak says with scorn. Calling yourself "the father of development" may be accurate enough, but it is a dull substitute for the personality cult of the magnetic Sukarno. When Jakarta teenagers brandish posters of Sukarno, the real cause is boredom with Suharto.

But being bored is surely a small price to pay for alighting from the roller-coaster of Sukarnoism. True, Sukarno established the nation—but he also led it almost to destruction. Liberal democracy was too fractious, so in 1959 it had become "guided democracy"—a euphemism for a parliament appointed by Sukarno which then appointed him president for life. The "guided economy", meanwhile, was singularly unguided: the plantations seized from the Dutch were ruined for lack of management; money was wasted in the half-baked military "confrontation" with Malaysia (Sukarno wanted to prevent Sabah and Sarawak, the British-controlled parts of Borneo, from joining the proposed Malaysian federation); inflation soared to over 600% a year. Sukarno's efforts to avoid disaster were simplistic: balance the army and the communist party against one another and move forward on a tide of speech-making. "I am not an economist... I am a revolutionary," he would blithely declare.

That kind of formula can never work for long. The crash came on September 30 1965. Junior officers murdered six anti-communist generals in a



coup attempt planned by the communist party (the Partai Komunis Indonesia, or PKI) with the help of Chinese money and arms. That, at any rate, is the official version. Others say the plotters were trying to protect Sukarno from a generals' coup; some believe Sukarno was himself behind the coup, intending to install a Marxist regime with himself as the new Lenin. The speculation will keep the scholars in PhDs for years to come; the reality is that General Suharto, commander of the army strategic reserve or KOSTRAD (every organisation in Indonesia has an acronym) moved carefully and effectively to quash the plotters. For a time Sukarno stayed as a powerless figurehead, but in 1967 Suharto was made acting president and then—on March 27 1968—he officially assumed the presidency. Sukarno, who was to die in 1970, was already an irrelevance; Indonesia's future lay with Suharto's deliberately named "New Order Government."



## Fixing the balance

LET the differences continue to exist, says President Suharto. "What we are trying to discover is how these differences could unite us in beautiful harmony, like the harmonious beauty of a multi-coloured rainbow." It is a nice sentiment—and arguably one that Indonesia practises more effectively than most (look at Lebanon, Sri Lanka and India for examples of the ineffectual). Christian Bataks, Hindu Balinese and Muslim Javanese co-exist with ease; intermarriage, even across faiths, is common enough to be unremarkable; only the old stumble in Bahasa Indonesia, the Malay language promoted by Sukarno as a unifying lingua franca. True, a superior Javanese might snub a tribesman from the jungle of Kalimantan or Irian Jaya—but, given the distances, their meeting is inherently unlikely.

Do not, however, conclude that the harmony is a genetic or cultural peculiarity of the Indonesian archipelago. It is the product of control, vigilance and indoctrination. If one colour in the rainbow does not match, it will be blacked out. For Sukarno the colour was a fervent Islam; for Suharto, the col-

our of communism is equally unacceptable—but perhaps less frightening than that of Islam.

The paradox is obvious. Almost 90% of Indonesians are Muslim, which makes Indonesia the biggest Muslim country in the world. Yet while the rest of the Muslim world becomes ever more devout, Indonesia remains sybaritic and secular. In the fasting month of Ramadan you may smoke, eat and drink with impunity almost anywhere in Indonesia. Only in Aceh is religious rigour the order of the day; elsewhere, Muslim Indonesia is as unobservant of its creed as Anglican Britain.

Cynics say the distaste for strict Islam is promoted by the regime, not to protect the country's minorities but to forestall the attacks of the pure on a system steeped in corruption. That may be true, but there is a more profound suspicion of Islamic zealotry. The Muslims of Java are perhaps 20 times the number in Saudi Arabia—but scrape away the thin soil of Javanese Islam and you find a cultural bedrock of the preceding centuries of Hinduism, Buddhism and animism. The *santri*, or strict Muslims, have always been a minority out of touch with

Indonesia's official slogan is Unity in Diversity—but the diversity has limits



the mystically inclined *abangan* majority. For the *abangan*, Islam is a label: the real loyalty is to a world of magic, allusion and rank (spoken Javanese has nine levels to indicate various degrees of deference), with no clearly defined boundary between the natural and supernatural.

To rule Indonesia, a leader must first rule Java—which means being the *dalang*, or puppet master, in the *wayang* shadow theatre of Javanese politics. The genius of Sukarno was to pull the strings not just of the Javanese but of all other Indonesians. His mechanism was the *pancasila*—the five principles on which the nation is founded.

#### Principles and practice

*Pancasila* is as difficult to quarrel with as motherhood and apple pie. The first *sila*, or principle, is Belief in the One Supreme God. The second is Just and Civilised Humanity. The third is the Unity of Indonesia. Then comes Democracy led by the Wisdom of Deliberations among Representatives. And finally, Social Justice for the Whole of the People of Indonesia. The five principles are displayed on practically every government building; ten rules of supportive behaviour (for example, *gotong-royong* or mutual assistance) are inscribed on government noticeboards, which then appear at roundabouts in Sumatra or between the souvenir shops in Bali. Even the *garuda*—the eagle that is the state's coat of arms—has its instructive role: various feathers indicate the date of independence; the shield on the eagle's chest has the symbols of the five *silas*; the motto gripped in the talons is *Bhinneka Tunggal Ika* (unity in diversity).

But is the symbolism empty—and ignored by a people grown weary of the slogans? Compare the controlled political expression with the freedom of Speakers' Corner in London; contrast the imprisonment of East Timorese separatists with the free speech given to their counterparts in Scotland or Catalonia; look at the neutered nature of the press (*Sinar Harapan*, a leading Jakarta daily, was closed down last October for revealing proposed economic

changes; *Prioritas*, a business daily, was silenced in June). Clearly, most Western Europeans and North Americans will say, practice falls short of the ideals of democracy and social justice.

By definition, however, Indonesians are neither European nor American. Set yourself in an Asian context and the message of *pancasila* becomes far from empty. *Sila* One is a carefully contrived rebuttal of Islamic hopes: Sukarno rejected the Muslim amendment tagged on to the belief in God "with the obligation of practising the laws of Islam for the adherents of that religion." That smacked too much of the Muslim state, with all the complications of *sharia* law and so on. Instead, the Muslim majority has equal status with Christians, Buddhists and Hindus. Jehovah's Witnesses and Baha'i are forbidden to organise, but only atheists are really beyond the pale (visiting agnostics should pretend to a faith). As for democracy, the foreign minister, Mr Mochtar Kusumaatmadja, is not entirely disingenuous when he criticises western democracy's "dictatorship of the majority".

The Indonesian definition of democracy is *musyawarah* and *musafakat*—consultation and consensus. It fits with a culture which values deference above directness, and which regards strident criticism as taboo. The problem, of course, is that some consultants have a greater status than others; consensuses not only emerge, they are also imposed.

#### Structured politics

Consider the evolution of the political process since independence. In the early years Indonesians could choose from more than ten political parties, from the Muslim Masyumi to the Communist party. But Sukarno tired of the fractious infighting, the separatist tensions and the constant turnover of cabinets—hence the promulgation of "guided democracy". The elected parliament was replaced by an appointed one. It was a synthesis in which some voices were bound to be quietened.

The Suharto era has reduced the babel of democracy still further. The PKI, once the largest com-



The abangan majority

unist party—over 2.5m members—outside Russia and China, was the first to be silenced. In the aftermath of the 1965 coup, tens of thousands of PKI members and sympathisers were slaughtered (some estimates say over half a million). Others were taken into "protective custody". Within a year of the coup, the party was officially banned.

The communist party's demise is hardly surprising: Suharto came from the army, and the army had never forgiven the communists for an attempted coup in 1948. But the New Order, carefully correcting the anti-west chaos of Sukarnoism, has gone much further than just crushing communism. It has created a political trinity which allows no apostasy. After the enforced merger in 1975 of some 80 organisations, an Indonesian elector has but three choices. Either he votes for the PPP (Partai Persatuan Pembangunan, or United Development party), which is a fusion of Muslim parties; or for the PDI (Partai Demokrasi Indonesia), which is a ragbag of Christian parties and erstwhile Sukarnoists; or for Golkar—the so-called "Functional Group" or Golongan Karya.

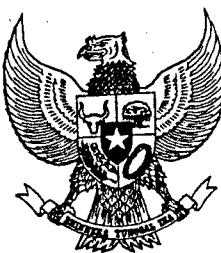
Sensible voters choose Golkar (otherwise, as one stubborn PDI supporter on Lombok points out: "You don't get a new road to your village"). In theory, Golkar is not a political party, complete with an ideology, but a body formed to represent the civil service, the armed forces, women's organisations, farmers, students and just about any other "functional group" you might think of. That means, of course, that Golkar is everywhere, right down to the humblest village official. By contrast, the parties cannot organise below the district level except during election campaigns—and so can never nurture the grass roots. That is not the only obstacle in defining their identity. Since 1985 all social organisations, political or not, have had to adopt *pancasila* as their basic platform—and to add insult to this injury to the PPP, it is now prevented from using its traditional symbol, the Kaaba in Mecca to which Muslims make their pilgrimage.

No wonder, then, that the PPP and PDI never stand a chance—their leaders are installed by the government (which chose a particularly unpopular one for the PPP); the topics of their campaign speeches are vetted beforehand. Between them, the two parties have never won even two-fifths of the vote in the five-yearly general elections. In the last elections, in April, the PDI surprised itself by getting 10.9% of the vote, up from 7.9% in 1982; the PPP saw its vote collapse from 27.2% to 16%. Golkar, therefore, happily exceeded its target of 70%.

To what end did over 90% of the electorate bother to vote? Even the most naive must recognise the constraints on his vote. He votes for a parliament of 400 elected members and 100 appointees from the armed forces. The president is elected by a meeting every five years (the next is in March 1988) of the People's Consultative Assembly, which consists of the parliament plus another 500 presidentially approved appointees from the military, regional governments and various groups. Even if all the voters were against the president, he would still have 600 out of 1,000 members of the assembly to keep him in power.

Mr Slamet Bratanata, once President Suharto's minister of mines but now an outspoken critic, has a tongue-in-cheek explanation for the voters' enthusiasm: "The campaigning has nothing to do with the general election. In the three weeks of the campaign they can't be arrested for what they say." The vote for Golkar looks like an endorsement of Pak Harto. But Mr Bratanata and others, including foreign observers such as the Dutch ambassador, say the rise in the PDI's fortunes is a sign that the people want "a real say in politics".

Sceptics may say this is the wishful thinking of a western-educated, urban elite, and that the masses want what even Mr Bratanata concedes is President Suharto's desire—"food in your belly, a roof over your head and a textile cloth to cover your shame." In which case, let the president listen to his own economists.



## Popular economics

THE "typical" Indonesian is a Javanese peasant farmer with at least five children who spends most of his life growing rice. In Indonesian political literature he is called "Marhaen", the name of a man Sukarno claimed to have met once in a field near Bandung. Marhaen may be practically destitute, but he owns his own land and his own tools. He does not sell his labour, but the produce of his labour. In other words, he can never be part of Marx's proletariat.

Marhaen has been the country's greatest safeguard. Contrast Indonesia with the Philippines—another resource-rich developing country of rice-growing peasants with large families. In the Philippines peasants till soil they do not own in return for pittances granted them by absentee landlords. Not surprisingly, thousands then leave the fields to become communist guerrillas in a quest for economic justice. In Indonesia, there is no such crisis of land reform—Marhaen already owns his plot.

*Lots of oil, lots of gas, lots of rice—and far too many people*

The problem is the plots are getting too small. Life expectancy in 1970 was 47 years; by 1985 it had risen to 56. Between 1980 and 1985 infant mortality rates fell from 107 for every thousand births to 80. Java's population has quadrupled this century. The rice paddies that look so pretty on a tourist's postcard are climbing higher and higher up the mountain slopes—which means that trees are cut down, topsoil is washed away and dams and irrigation channels are silted up.

The dilemma is simple: better health care keeps more people alive, so there is less land to go round. The answer is equally simple, but hardly helpful: hundreds of thousands drift to the cities in search of work which does not exist. The capital, Jakarta, is now a city of putrid canals and traffic-jammed streets in which some 7m people somehow exist. Officially, unemployment is only around 2%—but working for just one hour a week is enough to be counted as employed, so the real rate of unemploy-



ment is anyone's guess. Indonesian incomes per head are said to average more than \$500 a year—but the 1980 household survey showed that 90% of the population spent only \$285 a year. Two-fifths of the rural families in the overpopulated islands of Java, Bali, Madura and Lombok live below a poverty line set at only \$540 per family per year.

In the countryside, such poverty is softened by the benign climate and the *gotong-royong* (mutual assistance) of the extended family. In the cash economies of the cities, where there is no fruit to be plucked from the trees, the poverty is harder and leads to crime.

There have to be better answers—and there are. One is to promote birth control (which has the advantage of being cheap). But even if peasants can be persuaded that having fewer children will actually make their old age more secure, contraception does not instantly trim a population to a suitable size. A more practical answer may be to encourage migration from the overpopulated islands to the underpopulated. Java, for example, has 2,000 people for every square mile; Sumatra has only 182, Kalimantan 38 and Irian Jaya a mere 8.5.

The transmigration programme, headed by a bluff and cheery minister, Mr Martono, is a policy much of the world loves to hate: it smacks either of an internal colonialism or of an ecological atrocity. Arrogant Javanese migrants are said to lord it over neanderthal Irianese, destroying their culture in the process. Land-greedy pioneers are accused of destroying the rain-forest for a gain that will, inevitably, be only temporary.

Mr Martono has an immediate response: "Our critics start from a different basis, that when one people goes to another it's colonisation. We say we're one nation—it's integration." His officials follow his lead with vigour. For example, the land found suitable for settlement amounts to 1.4m hectares throughout Indonesia—equal to only a sixth of the forest area destroyed in East Kalimantan in 1982-83 by a fire which was probably started by native tribes practising "slash and burn" cultivation. Transmigrants do not destroy the soil, they conserve it—and bring roads, schools and clinics to the thinly peopled islands while lessening the ecological pressures on the overpopulated ones.

There are other statistics to hurl into the argu-

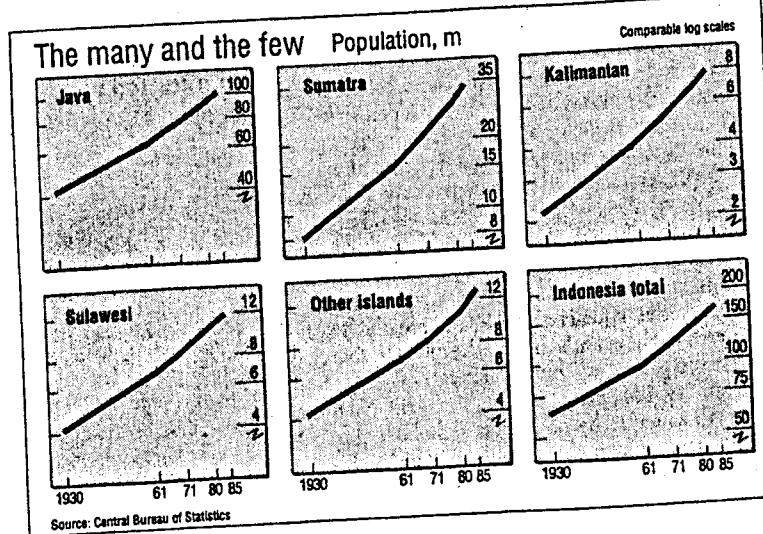


Marhaen

ment: that the programme created more than 500,000 jobs during the 1980-85 development plan at a cost of \$4,200 each (which compares with up to \$20,000 for a job in industry); that the new settlements produce 5% of Indonesia's rice—enough to have gained the nation, which in the late 1970s was the world's biggest rice-importer, self-sufficiency in rice in 1985 for the first time in 20 years. And that, between December 1950, when the first migrants moved from Java to Sumatra, and the end of last year, the government sponsored 698,200 families. Assume five people to a family, and you get perhaps 3.5m people—hardly a great number to place in some of the world's biggest and least populated islands. And will a mere 32,200 families—the total so far sent to Irian Jaya—really destroy the culture of indigenous tribes living miles away in the island's central highlands?

#### The Berkeley mafia checked an abyss

The statistics may not, of course, tell the whole story (journalists get only rare, and restricted, access to Irian Jaya). But a better criticism of the transmigration programme is of its inefficiency. If islands are sparsely populated, they are unlikely to be fertile—but the original mapping, surveying and site selection tended too often to assume the opposite. If slowing the programme down will improve its quality, the cut in its budget this year, to 111.2 billion rupiah (\$67.6m) from 325.4 billion rupiah, could prove a timely blessing. After all, moving people from island to island and giving them land, houses, food, tools and fertilisers does not come cheap—and Indonesia, the world's largest exporter of natu-



ral gas and the twelfth biggest producer of oil, no longer has money to throw around.

In the financial year to the end of March 1986, the average price of Indonesia's crude oil was \$25 a barrel; in the following year, the average was a mere \$13—having fallen in August to less than \$10 from the \$28 level of January. When a country is used to relying on oil and gas production for 70% of its export earnings and more than half of its tax revenues, such a slide threatens an abyss. The current-account deficit, which was only \$1.7 billion, or 2.1% of GDP, in 1985-86, suddenly widened to \$4.1 billion—6.1% of GDP—in 1986-87. How does a government cope with what amounts to the loss of a third of its expected budget revenues and export earnings? Or a deterioration in its terms of trade, when you include the price slump in tin, rubber, coffee and other commodities, of 34% within a year?

The answer is with financial prudence from the clique of technocrats who run (or try to) the country's economy despite the development follies to which third-world governments are often prone. The men are the economics minister, Mr Ali Wardhana; the finance minister, Mr Radius Prawiro; the minister of national development, Mr Johannes Sumarlin; the central bank governor, Mr Arifin Siregar; and two former cabinet ministers who now wield their influence from behind the scenes, Mr Sumitro Djojohadikusomo and Mr Widjojo Nitisastro.

They are all western educated (enough of them went to the American west coast, thanks to the Ford Foundation, that they are now known as "the Berkeley mafia"), and most of them earned their economists' spurs rescuing Indonesia from the shambles of Sukarnoism. If you doubt their worth, look at what the oil-price collapse has done to Mexico, Venezuela and Nigeria. By that standard, Indonesia is doing remarkably well, which is why it gets high marks from the World Bank—and why foreign governments and international agencies agreed in June to lend another \$3.2 billion (Indonesia had expected only \$2.5 billion). With unusual (but sensible) generosity, much of the money was provided not to finance imports for specific development projects but to cover Indonesia's local costs on projects—which really amounts to straightforward support for the balance of payments and thus for

Indonesia's economic technocrats.

The underlying creed of this clique is the balanced budget. What you do is divide your expenditure into "routine" items (like paying the civil service) and "development" spending (like building roads and dams); you then make sure that domestic tax revenues match your routine spending, and that your development spending is covered by foreign aid. What you do not do is print money—for example, by selling IOUs to your citizens—to finance your budget.

It is a brand of financial rigour often recommended by the IMF and foreign bankers. Just as often, their developing country clients say it is a recipe that makes growing populations hungry and angry. The Indonesian economic technocrats do not share that opinion because they remember the spendthrift latter days of Sukarno. Between 1960 and 1966 real GDP grew by less than population did; government spending, running way ahead of government revenues, was financed by central bank credits which by 1966 equalled 56% of total government spending. Inflation rose to an annual rate of 639% in 1966; the foreign debt was \$2.4 billion (enormous for the time). Regardless of the political mood, the economic data had already passed a death sentence on the Sukarno era.

The problem, is that, although salvation through pain may be sensible, it still hurts. This year's budget, totalling 22.8 trillion rupiahs (\$13.9 billion) is 6.4% bigger than last year's—but only in terms of the rupiah, which last September was abruptly devalued by 31% against the dollar. Because most of Indonesia's foreign trade is in dollars, the new budget involves a tightening of the national belt. Mr Prawiro and his colleagues calculate that dollar revenues this year will be \$13.8 billion, some 27.5% lower than last year. Take away debt-service payments—up by 61% from the figure set for 1986-87—and most other routine expenditure is being cut back; development spending, already cut by 24% last year, is now being cut by another 7%.

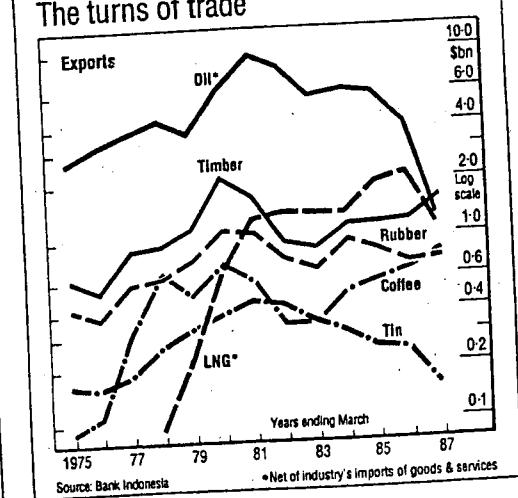
#### Making the best of it

The question is how to make the pain lead to the salvation. Arguably, the economic technocrats are making the pain greater than is necessary. Surely, for example, they could have switched some of the country's yen loans (which at the end of last year accounted for 36% of the government's foreign debt) into dollars to cope with the rise of the yen. Mr Sumarlin himself concedes that the managed fall of the dollar since the Plaza Hotel meeting in New York in September 1985 has increased Indonesia's debt burden by around \$4 billion. Put another way, if he and his colleagues had been able to adjust to the moving exchange rates, Indonesia last year would have had to pay only 23.7% of its export earnings to service its public debt, instead of 29.3%.

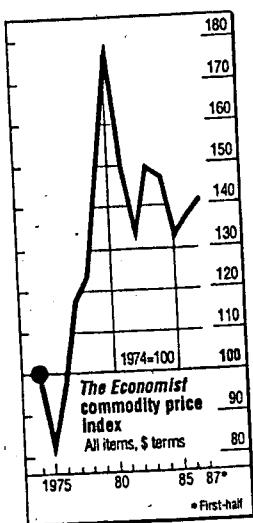
On the other hand, the arithmetic of hindsight is rarely useful (after all, you could also calculate that if exchange rates and export revenues had stayed at their 1984 level, the debt service would have been a mere 16.3%). The point is that Indonesia gets good terms from its Japanese creditors—and what goes up can also come down. The \$905m yen-denominated concessional loan made in February by Japan's Export Import Bank may eventually be an



The turns of trade

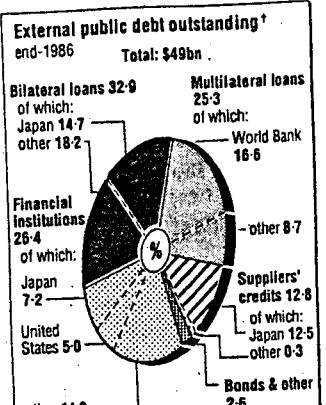
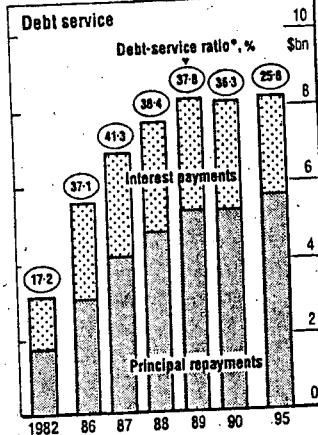
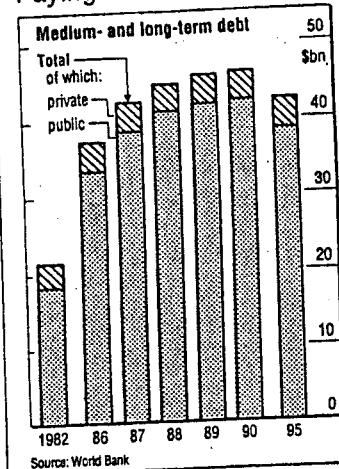


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### Paying the bills



even better deal for the Indonesians. The real answer for Indonesians is not to second-guess the financial markets, but to make a better job of what they already have.

That used to mean oil and gas. For a decade after the OPEC-driven oil price rises of 1973-74, Indonesia pumped out more than 1.3m barrels of good quality crude oil each day. During that period the price rose from \$10.80 for a barrel of oil from the Minas field in Sumatra, to \$29.53. Moreover, exports of liquefied natural gas to Japan began in 1977 on long-term contracts linked to the oil price.

Those days of high prices are long gone. The Japanese and the South Koreans have already insisted on paying lower gas prices to reflect the de-

cline in oil prices. True, the price of Indonesian crude has now moved up to over \$18 a barrel, compared with the budget's conservative prediction of \$15. But if the Gulf war ends, increased output from Iran and Iraq could send oil prices tumbling again. Moreover, even at current production rates (curtailed to under 1.2m barrels a day by OPEC's price-supporting production quotas) Indonesia's proven recoverable oil reserves will last only about 16 years. Optimists say, correctly, that the real lifetime will be much longer, since only 34 of Indonesia's 60 oil basins have been explored and a mere 14 developed. But it takes time to explore and develop an oil or gas field. In the meantime, Indonesians will have to look elsewhere to earn their livings.

## Back to the soil

Growing more  
should not cost  
more

THE international economists in Jakarta (every debtor country has its set of sharp-eyed observers from the donor nations and institutions) have an almost uniform recipe to inspire Indonesia's economic recovery. Develop the plantations (the "agribusiness approach") and deregulate industry. The Berkeley mafia is in absolute agreement—which is probably why the latest, confidential, World Bank and IMF reports are so widely available in Jakarta. The problem is how to put agreement into practice.

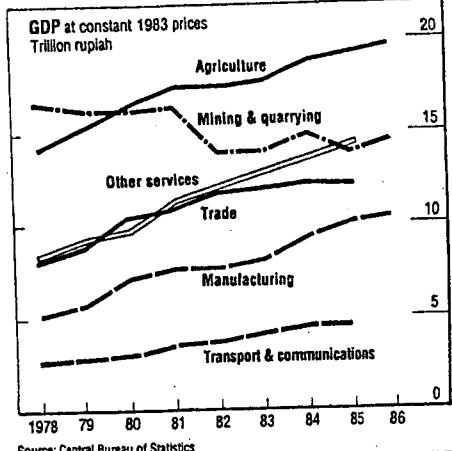
At least when it comes to the agricultural bit of the recipe—deregulation is a different matter—the mafia and its foreign friends are pushing on a door which is not firmly locked. After all, three-quarters of the nation live in the countryside; almost 60% of the labour force work on the land; and, despite the oil boom of the 1970s, agriculture is still the economy's biggest sector, providing nearly a quarter of GDP. There are ideal growing conditions for rubber, oil palms, coffee, sugar, bananas and so on. A peasant in Java, Sumatra or Bali can drop a seed in the ground and sit back to watch it grow. Equally to the point, President Suharto (the son of a rice farmer) likes the land. The "father of development" is more often televised talking to farmers than to teachers and factory workers.

The result is that Indonesia's farmers have done

a lot better than their counterparts in comparable countries. Nigerians reacted to the oil boom with a massive rush to the cities to earn money on construction sites. So the production of cash crops like cocoa fell by 43% between 1970 and 1982; rubber by 29%; and groundnuts by 64%. Indonesians, by contrast, increased both their agricultural output and exports. The country is the world's second biggest exporter of rubber, with a quarter of the world market, and the fourth biggest coffee producer. In the period from 1976 to 1984 annual agricultural growth in Indonesia averaged 4.2%—more than double the rate of Venezuela, a fellow OPEC producer, and eight times faster than Nigeria's growth.

None of this has been by accident. The better part of the design has been the technocrats' ability to maintain a realistic exchange rate. When oil and commodity prices started falling in the early 1980s, the Nigerians refused to devalue the naira—thereby impoverishing themselves for years still to come. By contrast, Mr Widjojo and his friends saw a current-account deficit widening in 1982-83 to \$7.2 billion and promptly (in March 1983) cut the rupiah's value against the dollar by 28%.

The questionable part of the design has been the help lavished on Marhaen and his fellows. The farmers have increased rice output by an average of

**Farmers on top**

Source: Central Bureau of Statistics

6.6% a year for the past ten years; planted more tree-crops (such as rubber and oil palm) than any other country; and doubled the production of soyabean in the past five years. To do that takes a great deal of money, especially for fertilisers and pesticides. But the farmer does not have the money—and so the government gives it to him. Last year, according to the World Bank, subsidies for fertilisers totalled 365 billion rupiahs and for pesticides another 42 billion rupiahs. Add in other items like cheap credit and the capital costs of irrigation, and the bank gets to a final subsidy of a massive 1.2 trillion rupiahs (more than \$700m at current exchange rates).

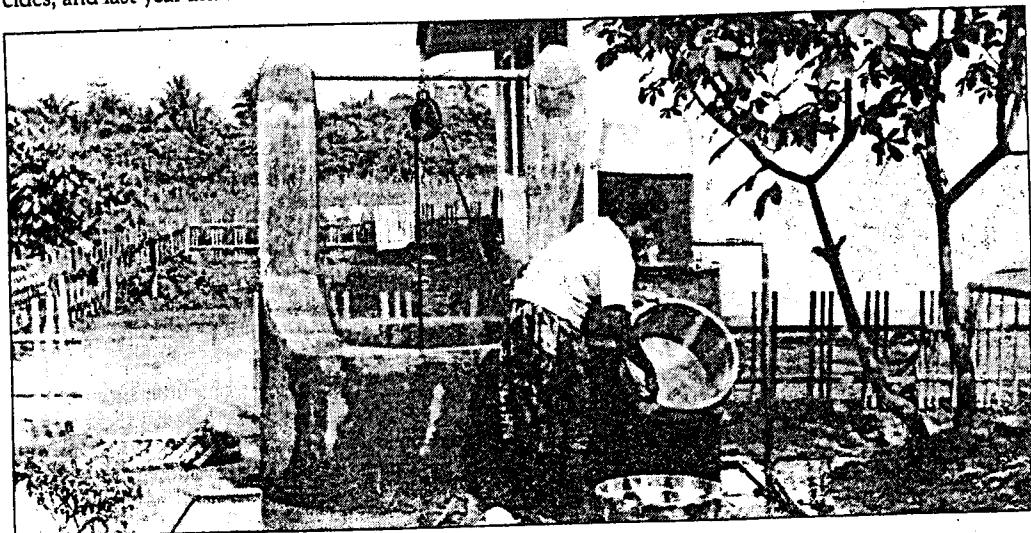
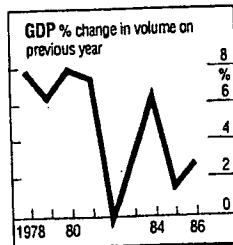
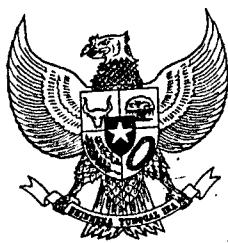
It may make excellent political and social sense to ensure self-sufficiency in rice and to aim for it in soyabean, but a country whose foreign debt is now \$42.6 billion (and rising) simply cannot afford charity on this scale. It is economic nonsense that Indonesia should produce its own sugar at twice the cost of sugar on the world market. It is an agricultural waste to increase the consumption of fertilisers by 77% between 1980 and 1985, the biggest increase in the world. And it is ecologically insane to subsidise the overuse of pesticides: a little creature called the brown plant hopper is now immune to the pesticides, and last year attacked more than 59,000 hectares

of rice, compared with the 19,000 hectares it attacked in 1984.

The problem is that farmers get hooked on subsidies, and so do the suppliers of pesticides and fertilisers. To break the addiction, the World Bank recommends phasing out the subsidised credits given for individual crops in favour of providing credit at market rates for general farm use. The idea is absolutely right in economic theory. The farmers will respond to market signals and concentrate on areas where Indonesia has a comparative advantage—namely, plantation crops like rubber, oil palms, coconuts and coffee. Meanwhile, private-sector industrialists will be fired with the same notion and will set up the downstream processes to add value to the farmers' labour.

Practice is another matter. The plantation sector is now dominated by state-owned companies best noted for their mismanagement (the World Bank calculates that the inefficient processing of rubber and palm oil loses at least \$170m a year). Drive past the plantations of Malaysia and then past the plantations of Sumatra, and the calculation that the productivity of Indonesia's plantations is 40% less than Malaysia's is instantly believable. One answer is to bring in foreign companies to develop the land. This is precisely the idea of the "nucleus" estate, in which private companies own 20% of the acreage to exploit for 35 years while processing also the crops of the "plasma" plantations on the remaining 80% of the acreage. These plasma plantations have to be released to smallholders, for whom the private companies will also have to provide agricultural support. The trouble is that most potential investors say they need both more land and more time if they are to make a commercial return.

With luck, the pressure from foreign creditors will give the economic technocrats the muscle they need to push Indonesia towards an open market. After all, last November they persuaded the president to act against the brown plant hopper. Convincing by the ecological case, Mr Suharto placed a ban on 57 different pesticides—even though many of them were imported by companies owned by his relatives. But do not assume the open market is therefore just around the corner. There are many tortuous bends in the road still to come.



Fertile land



Some entrepreneurs are more equal than others

## Curse on the economy

**C**ORRUPTION is our culture, says the scion of a prominent Indonesian business clan. He is educated, rich—and by race Chinese. Since the Chinese are Indonesia's vulnerable minority, and since he believes that the level of corruption has become high enough to threaten revolution (not immediately, but perhaps in five years), he had better remain nameless.

Corruption, of course, has many forms, from the mildly inefficient to the criminally venal. In Indonesia it is everywhere, and in every form. Buy a foreign magazine in Medan airport, in northern Sumatra, and you find there is a negotiable "tax" on the cover price; bid for an infrastructure contract in a Jakarta office and you find a "commission" of 20%, even 30%, is necessary. Do not complain about it, because you cannot change the "culture": Indonesia's national soccer team recently accepted bribes to lose a match; Indonesian parliamentarians, who get a handsome official discount on a car purchase, sell the purchasing permits to car dealers.

Indeed, some foreign "Asia hands" will mount a reasoned defence of corruption: at the lower levels it allows the little man to supplement an inadequate

income and brings forth what is wanted; at the higher levels it allows a patron to get "off-budget" money to spend on deserving causes, like a village mosque or holiday bonuses for employees. At all levels, it helps cut through the bureaucracy. One foreign manager in a leading Jakarta company says: "The word to use is flexible in doing business here. The positive aspect of a flexible business environment is that everything is possible." In short, the money trickles down for the benefit of all, oiling the business machine on the way.

Do not listen to such soothing voices. Corruption in Indonesia has costs that far outweigh any ostensible benefits. The costs are the same as those imposed by corruption anywhere: the efficiency of the marketplace is distorted to the detriment of the consumer. By just how much for the Indonesian consumer it is impossible to say, although the conventional estimate is some \$700m a year. But there is an intangible cost whose impact is much greater—what one aid expert in Jakarta calls "an acceptance of shoddiness, including in intellectual thinking, in everything".

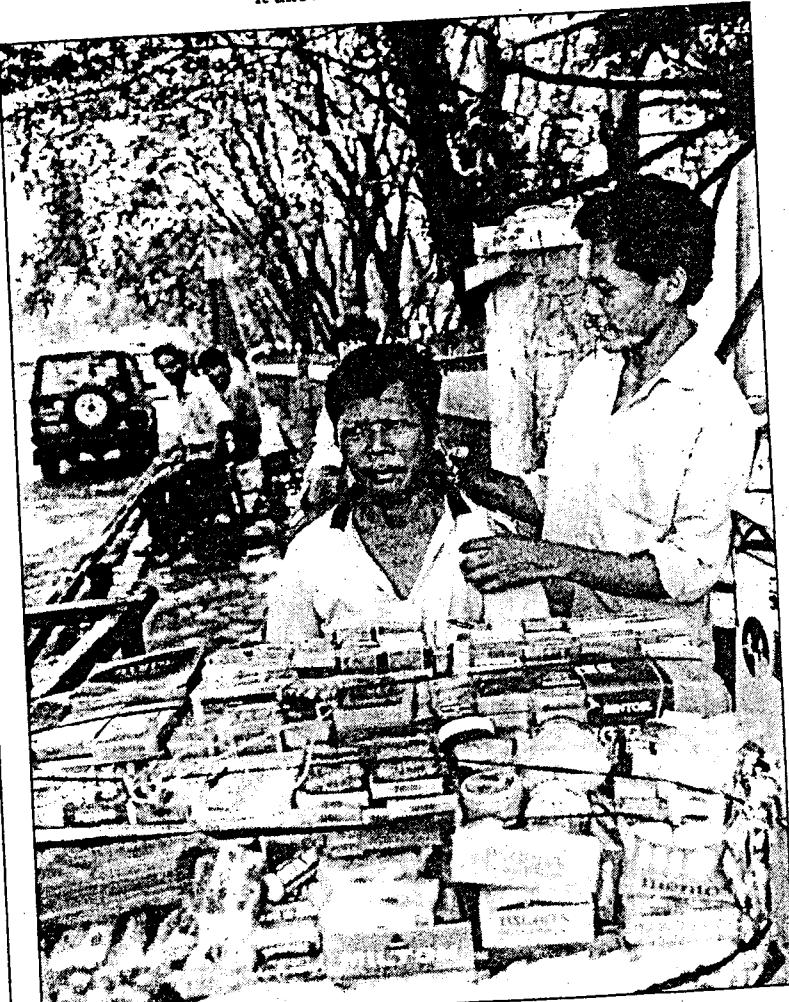
A change in the culture may never happen—but at least an increasing number of Indonesians are beginning to question its worth. Some people's economic cake is getting smaller, but the slice of corruption is not. The problem is that to question corruption is also to question the government and the president's nearest and dearest.

### Monopoly money

Imagine for a moment that you are an Indonesian nationalist striving to develop your country's infant industries. Your aims are absolutely honourable: you want to wean the economy away from its dependence on oil and gas and vulnerable commodity prices; and you want to train and employ young people for the new industries. You also know that you have a large domestic market and that it will be many years before your industries can match foreign competition. Your solution is clear: use oil and gas revenues to establish the new industries, from steel and cement to car assembly and cosmetics; give them production licences to ensure a match between demand and supply; protect them from outside competition by erecting high hurdles of import quotas and tariffs; and, finally, for essential components and raw materials, establish import monopolies to ensure that there is no competition between agencies.

Now bring yourself back to reality. Indonesia's protectionism has filled its shops with inferior goods; ensured that the inefficient are never punished; and made fortunes for those lucky enough to have a production licence or import monopoly. The lucky ones come mainly from three groups: the army, the Chinese, and the president's relatives and friends.

The armed forces—the Indonesian acronym is ABRI—entered the business world as far back as the 1950s, impelled in part because the allocations in the budget were never enough to meet the mili-



Corruption trickles down ...

tary's needs (in 1970, the ABRI newspaper said the shortfall was 50%). ABRI prospered by taking over the Dutch companies nationalised by Sukarno in 1958; as the oil industry developed and boomed, ABRI companies moved into construction, banking and transport; by now, there are literally hundreds of ABRI companies, involved in activities from fisheries to air freight. To be an army officer is to be virtually assured of a business appointment to cushion one's retirement. To be a general is to become truly rich.

The classic example is General Ibnu Sutowo, head of the state oil company, Pertamina, in the 1970s. With a flagrant disregard for conventional accounting, but with the support of the president, General Sutowo expanded Pertamina's activities into steel, petrochemicals, real estate, shipping, air transport, even telecommunications. He was the arch-nationalist of Indonesia's autarkic excess. Then, in March 1975, Pertamina failed to make a payment on some of its short-term debt—and an investigating team led by Mr Sumarlin found that the general had piled up debts for Pertamina of an amazing \$10.5 billion. Quite how much of that money enriched individuals is unclear, but consider the case of Kartika Ratna, the Chinese Indonesian widow of Haji Thahir, a \$600-a-month assistant to Sutowo. In 1977 she withdrew \$45m from her husband's personal accounts in Singapore and was stopped from taking out another \$35m only by a writ from the Indonesian government. She claimed in retaliation that her husband had been part of a network that included the general, Mr and Mrs Suharto and the president's Chinese Indonesian business friends. Maybe a lot of the money was being banked for state purposes not included on the state budget—but surely not all of it.

#### Chinese connection

One, sad flaw in the adherence of indigenous Indonesians to *pancasila* is their attitude to their Chinese compatriots (who may have been in Indonesia for generations). The Chinese number only about 3.5m of the Indonesian total, but an awful lot of the other 160-odd millions cannot stand them and occasionally resort to beating them up or even killing them. Foreign publications in Chinese are banned; Chinese Indonesians are constantly encouraged to "Indonesianise" their names; *taiji*, Chinese physical exercise popular even with Indonesian cabinet ministers, has had to change its name by official decree.

Why the hostility? Perhaps because the Chinese came as tax-gatherers for the Dutch, were banned from owning land and so were forced into commerce and money-lending. Perhaps because they have an ethic of hard work which is alien to most Malays, or because they have family links with communist China or because they are reluctant to convert to Islam as a step to assimilation. In status and predicament there is an obvious parallel with the Jews of Europe—but an infinitely greater presence in business. The Chinese probably own 75% of Indonesia's private domestic capital. They advise almost any indigenous Indonesian with business ambitions—including the presidential family.

It is a relationship that suits both sides. With their access to international capital, especially from overseas Chinese in Singapore and Hongkong, they

provided—and still do—much of the investment needed for Indonesia's industrialisation. For example, the group of Mr Liem Sioe Liong (also known as Mr Sudono Salim) raised \$552m in the early 1980s for a cold rolling steel mill to be jointly owned with the state's Krakatau Steel. Since the mill's ability to make a profit is debatable, Mr Liem could doubtless have put his money to better commercial use elsewhere—but he chose to help out the state.

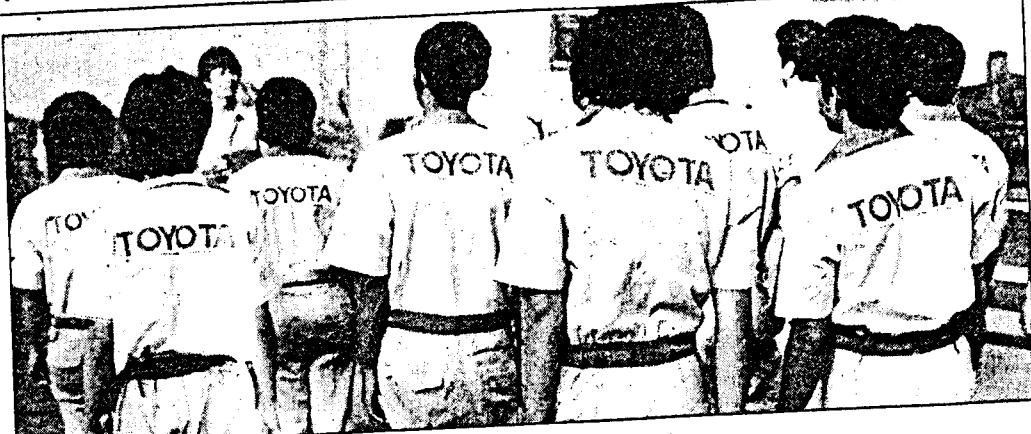
The choice, in fact, is entirely natural. The authorities—sometimes acting on a personal level—award trading monopolies and government contracts to the *cukong*, or Chinese businessmen, who in turn give the authorities a cut of the profits. Take, for example, the Astra group of Mr William Soeradjaja (also known as Mr Tjia Kian Liong): it began under Sukarno with government contracts to import asphalt; it now has the licences to assemble or import a range of foreign cars, from Toyota to Renault.

#### All in the family

There are other Chinese groups which have prospered by their political, as well as business, skills. Mr Tan Siong Kie (Hanafi) is said to be the biggest industrialist outside the cement and car industries; Mr The Kian Siang (Bob Hasan) is in forestry, shipping and chemicals. But it is Mr Liem's group that now takes pride of place. His friendship with President



... even to this level



Their boss is Chinese

Suharto has helped Mr Liem's group become the monopoly importer of cloves (vital to the local cigarette industry) and flour; the dominant force in the cement industry; and the biggest shareholder in Indonesia's biggest private bank.

If the symbiosis between the *cukong* and the government clearly benefited the nation, there would be no undercurrent of criticism. But the eager involvement of the president's relatives, especially his three sons, Sigit, Bambang and Hutomo, and cousin Sudwikatmono, is stretching the cultural tolerance. Companies controlled by the family and its business friends have dominant positions across a range of industries. Imported steel for the local car assembly industry must go through them; so must polyethylene and other essential plastic raw materials; all tin-plate users must buy from them. They are the sole insurers of Pertamina and privileged traders of its oil; they have about half of the protected local cement industry. In almost every sector, from dairy products to sugar, they have a protected and profitable position. They have bought a malfunctioning Indonesian telecommunications satellite from its insurers, Lloyds of London, in order to repair it and resell it to the government at a profit.

All of this has a painful price for a country forced into austerity. For an Indonesian consumer, steel prices were as much as 45% above levels on the world market last year; plastics up to a fifth more; domestic cement double the price of imports from Singapore. It makes a nonsense of the autarkic strategy of industrial development. True, there is a huge domestic market for Indonesian-made products, but the customers cannot afford to buy.

#### Deregulate

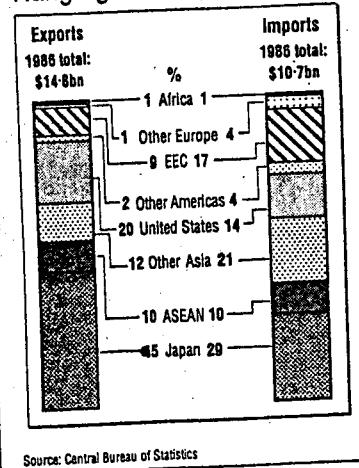
The Berkeley mafia and other western-trained economists have the obvious answer. Open up the economy to foreign investment and competition; and get rid of all those production, trading and import licences—which are nothing more, in the end, than a licence to print money for their owners.

Convincing others of the answer is another matter—which usu-

ally succeeds only after an irrefutable economic setback. For example, OPEC's \$5 cut in the oil price in March 1983 was the signal to liberalise the banking system: controls on the interest rates of the state banks were abolished, making the banks compete for deposits and clients. The result was a rise in interest rates which reversed the flight of capital and so strengthened the balance of payments.

Given that the circumstances of the oil market have been in more or less continuous decline since then, the technocrats should have become correspondingly more influential. And, indeed, they have. In 1984 and 1985 the tax system was simplified and reformed to expand the government's revenue base. It succeeded: the total number of taxpayers is now about 3m, compared with only 600,000 or so five years ago (which gives some indication of past evasion); and there is a value added tax—from which exports are exempt. Most dramatically of all, the president in April 1985 was persuaded to put a Swiss firm, Société Générale de Surveillance, in charge of assessing customs duties. According to

#### Hanging on the yen



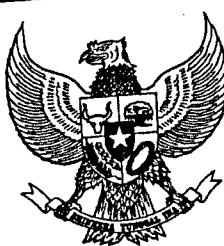
Sumarlin wants fewer rules

one western embassy, this snub to the notoriously corrupt Indonesian customs service has cut import and export costs by over 20%.

That was only part of the technocrats' success. Throughout the past year and a half, the government has been announcing a stream of reform packages to improve the competitiveness of non-energy exports. Foreign investors have been allowed into 297 sectors from which they were previously banned and have been given access to rupiah loans from the state banks. Local sourcing has been made voluntary if imported components and raw materials are cheaper. Tariffs have been reduced on some imported products. Duties and quotas have been

abolished on other imports. Some monopolies have been ended. And the rupiah has been made low enough in value (by the September devaluation of 31% against the dollar) to encourage foreign buyers to look more enthusiastically at Indonesian products.

The never-ending list of reforms is both worthwhile and long overdue (Mr Sumarlin, for one, is hard pressed to say why some of the regulations were there in the first place). But before you applaud, remember two things—the important areas of steel, plastics and food products have been left untouched; and the "nationalists" have not lost all the battles to the market-minded technocrats.



## Habibie's dream

**P**ROFESSOR Doktor Ingenieur Bacharuddin Jusuf Habibie, the 51-year-old minister of state for research and technology, is clever, charming and wonderfully enthusiastic. To get the full effect, meet him across his huge office desk covered with model aircraft. Or go with him by helicopter (easy if you are a foreign politician or even merely a foreign journalist) from sprawling, somewhat tacky Jakarta southwards over the Java mountains to the spruce, modern factory in Bandung of Industri Pesawat Terbang Nusantara (IPTN)—a state-owned company making both passenger aircraft and helicopters. Mr Habibie, eyes flashing and arms gesturing, will talk non-stop of his dream for Indonesia.

The dream has four stages: Indonesia will first acquire technology by assembling foreign-designed aircraft under licence; integrate this knowledge by entering hi-tech joint ventures; then develop technological skills by establishing technical institutes; and finally provide the competence in basic science that characterises advanced nations. In other words, if you start at the top with a technology-stretching industry like aerospace, it will then foster its own support industries and personnel.

It is an idea that flies in the face of conventional development economics (which tells countries, basically, to learn to walk before they try to run). But Mr Habibie has no doubts at his leap-frogging strategy. Nor does he worry about the cyclical ups and downs of oil revenues. His intent is to "build a nation" and so his vision is long-term: "I've promised the people that we need 50 years to be equal to all other nations. I've just passed the first ten years."

The dream terrifies the cost-conscious technocrats. To any objective observer it smacks of a megalomania pernicious to any sound economic planning. But it enthrals the president (who has known Habibie since his boyhood). The result is that the head of what may seem a minor ministry is perhaps the most powerful influence on Indonesia's future. Mr Habibie does not just build aircraft—he has more than a dozen other positions of command. For example, he is boss of the companies that make Indonesia's ships and some of the armed forces' missiles and munitions; he is in charge of developing Batam Island, a duty-free zone intended to draw industry away from Singapore, which is a mere 12 miles away; and he is chairman of the agency that

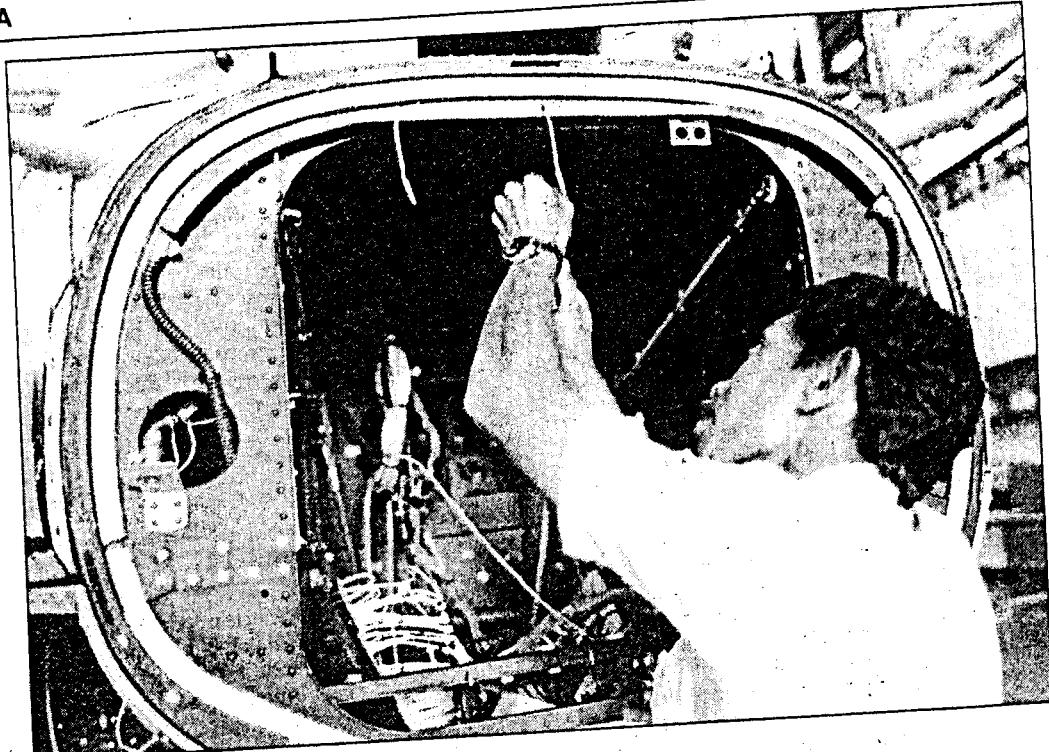
assesses all the country's technological needs. These, he says, include nuclear power stations—both to leave more oil available for export and to prepare for the age of fusion a century from now. What he wants, he normally gets. The country's shipowners have to buy his ships; the airlines and armed forces have to buy from IPTN; the foreign oil contractors have to set up on Batam Island. Moreover, components for his factories have never had to go through the monopolies; money for his ideas has never had to pass open scrutiny and debate.

So will it all be worth it? The critics say it can never be. They admit Mr Habibie's brilliance (he graduated summa cum laude from Aachen Technical University and then stayed in West Germany to become Messerschmitt-Bölkow-Blohm's vice-president for technology application). They admit that, unusually for Indonesia, he gets things done. But they say he is like a boy playing with expensive toys he will never have to pay for. True, the Indone-

Just how fast and high should Indonesians fly?



Habibie scorns economic convention



The screwdriver economy

sian archipelago is a market for hundreds of aircraft of the type IPTN makes in collaboration with CASA of Spain, and of the type it wants to make in partnership with Messerschmitt-Bölkow-Blohm, Holland's Fokker and America's Boeing. But aerospace is capital and skill intensive, not labour intensive—so how will IPTN ever catch up with its the experienced westerners? It would be cheaper, the critics say, to buy abroad. When Mr Habibie argues that he is saving foreign exchange, they point out that he buys his components from overseas; has sold barely a handful of IPTN's 250-odd aircraft to foreign buyers; and has forgotten the foreign debt on which his empire

is built. Most of all, he has forgotten the opportunity lost to invest that money in better education and health care for ordinary Indonesians.

Logically, it is hard to disagree with the critics. Emotion is something else. Mr Habibie says an IPTN-made aircraft is not just a machine, it is a way to inspire ordinary Indonesians to believe that they, too, can one day join the developed world—just as Japan once did, or as South Korea is now doing. Technocrats cannot put a price on inspiration, and so they tend to deride it. But without Sukarno's inspiration, Indonesia would not exist—and maybe the country needs inspiration now more than ever.

## The challenge from within

Indonesians set  
their own  
problems, and  
must find their  
own solutions

THE outside world rarely interests most Indonesians, even those in the political and military establishment. Indonesia has an experienced and articulate foreign minister, Mr Mochtar Kusumamadja, acting as the spokesman of the Association of South-East Asian Nations in its effort to get Vietnamese troops out of Kampuchea. And Indonesia inclines to an American perception of geopolitics (despite Mr Mochtar's talk of a nuclear-free Pacific, and despite a warmth towards Russia that is conditioned by a perpetual suspicion of China). But the Kampuchean issue or Mr Gorbachev's policy on Asia will not change Indonesia's basic, cultural introversion.

To see why, look again at the map. Who in their right minds would invade such an extended archipelago, with thousands of islands providing sanctuaries for a guerrilla resistance? The last effective occupying power was the Japanese in the second world war—but they had the co-operation of Sukarno,

who viewed them as a lever with which to dislodge the Dutch. The Indonesians, with 16m friendly Malaysians to the north and 16m friendly Australians to the south, see no external threat. And their complacency is justified. They know full well that the country's threats are from within.

The problem is to define the menace. The pat answer is to talk of separatism. In Irian Jaya the army faces the guerrillas of the Organisation for a Free Papua; in East Timor, a former Portuguese colony annexed by Indonesia in 1976, the Fretilin independence movement continues its armed struggle. Propagandists for the guerrillas on both islands talk of the army's savagery and use of torture. The government naturally denies this—but refuses to give outsiders unsupervised access to the islands. What seems most likely, according to independent diplomats, is that guerrilla activity is low-scale, with total guerrilla forces numbered in the hundreds, rather than thousands, and ineffectual. It is also likely to

become still more ineffectual, thanks to a friendship pact signed between Indonesia and Papua New Guinea last year and the recognition by Mr Hawke's Australian government of Indonesian sovereignty over East Timor. In short, the pat answer does not convince. The real threat is that Indonesia will not—perhaps even cannot—adapt for its own good.

#### Changing times

Indonesia does not feel like a military dictatorship. Mr Bratanata is allowed (so far) to attack the government in the columns of foreign newspapers; foreign tourists roam unchecked (Irian and Timor excepted) from one island paradise to another; Indonesians move around in their millions—and the 250,000 rupiahs (\$150) exit tax for foreign travel is designed to extort money, not to imprison people in their own country.

Nor does it feel like the Philippines. The likening of the Suharto family to the Marcoses—a comparison which so infuriates the president that offending, and non-offending, Australian journalists are banned—is facile. Most Indonesian corruption has been recycled to some benefit for the country; corruption in the Philippines was virtual pillage. The results are obvious: there is scarcely a beggar to be found in Jakarta, whereas Manila has its hopeless vagrants by the thousands.

But by any objective definition Indonesia is still a corrupt military dictatorship. The armed forces provide the country with its president; nearly half its ministers; around half of its ambassadors; and two-thirds of its regional governors. Little happens without ABRI (which includes the police) being in some way involved. And the involvement can be ruthless. The crime rate in Sumatra and Java has declined dramatically thanks to a campaign between 1982 and 1985 of "mysterious killings", followed by

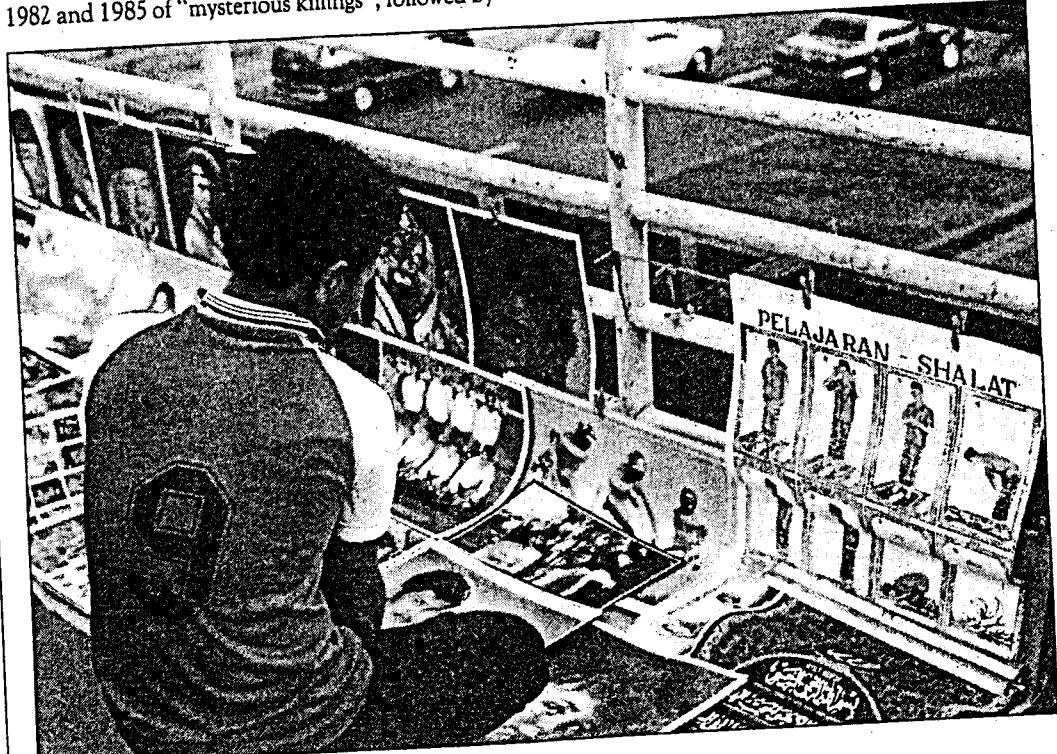
a "shoot-to-wound" policy last year towards criminals allegedly trying to escape.

The government can be equally ruthless in its political signals. Retired General Hartono Dharsono was jailed last year for ten years after questioning the official account of alleged Muslim extremism in riots in 1984 in the Jakarta port district of Tanjung Priok. Last autumn nine former Communist party activists were suddenly executed—after almost 20 years in prison. The theory is that the executions were not a warning to other communists, but a cover from which to suppress Islamic fundamentalism without being accused of discrimination.

Perhaps these "excesses" are the price the country has to pay for the firm government it needs for its own cohesion. ABRI certainly makes no excuses for its involvement in politics: its role is enshrined in the concept of *dwi-fungsi*, or dual function. Since the army fought for independence and then saved the country from a communist coup, it now has a right and duty to monitor and safeguard that independence by an open involvement in politics.

It is the argument of third-world armies everywhere—and it should not be dismissed out of hand. After all, the armed forces are often the best sources of educated and disciplined manpower. General Benny Murdani, the Roman Catholic commander of ABRI, gave his senior officers a pointed warning last September to be "watchful of groups in society who cannot understand the dual role due to influences from social sciences originating from cultural backgrounds outside Indonesia." The allusion is not to western liberals but to Indonesians tempted to follow the path of Islam rather than *pancasila*. But if you enforce *pancasila* by neutering the political system or by being seen to take sides, do you not, ultimately, lose the harmony you supposedly seek?

It is a question which divides ABRI itself. Just as



Deference to Islam or to *pancasila*?



They are the constant challenge

the economic debate separates the "technocrats" from the "nationalists", so there are liberals and conservatives within the armed forces. The conservatives say ABRI must keep its grip on the political process; the liberals argue that ABRI should rise above political manipulation, devolve power to civilians and be an impartial guarantor of Indonesia's integrity. Otherwise, they say, ABRI will forfeit the people's trust.

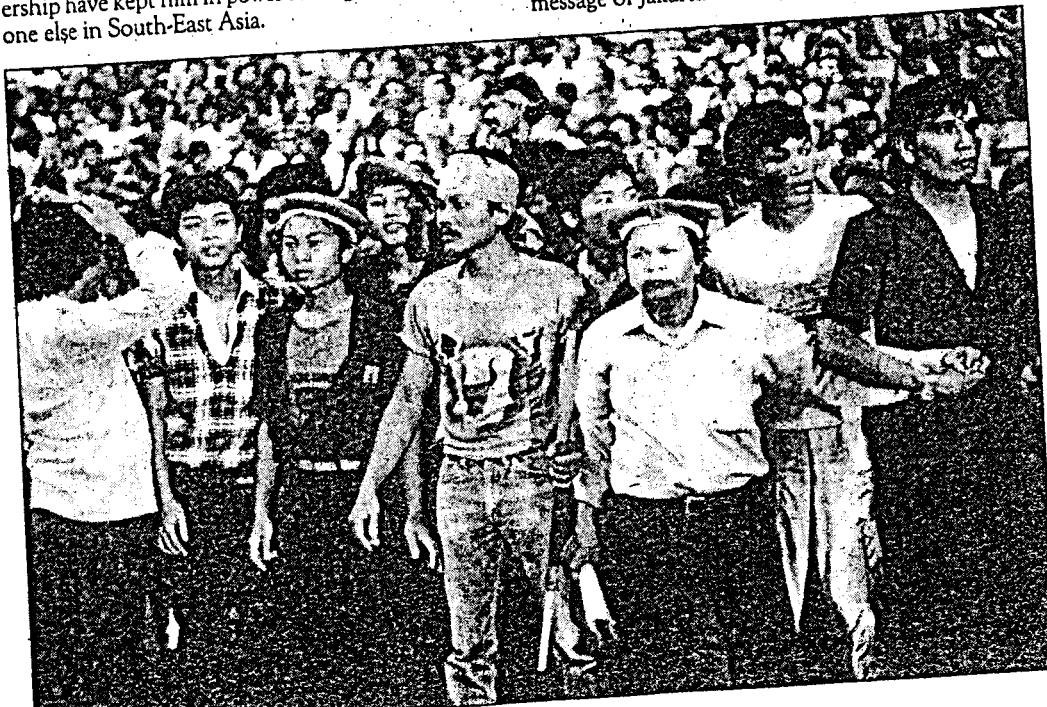
In the end, such arguments are resolved only in part by consultation and consensus. The final arbiter is Pak Harto himself, a man whose skills of leadership have kept him in power as long as almost anyone else in South-East Asia.

The economic imperatives he can probably appreciate. The technocrats can point to results: the more liberal regime now being tried managed last year to increase non-oil exports by 7% in value. And they can point to need. Indonesia has to have foreign investment—but foreign investment has been sliding each year, from \$2.8 billion in 1983 (when applications were rushed in to beat a tax deadline) to just over \$1.1 billion in 1984 and just over \$800m in 1986. The biggest foreign participant is Japan, with a third of all investment in the past 20 years—but the former Jakarta representative of the Japan External Trade Organisation, Mr Hiroshi Oshima, last year publicly complained with unAsian bluntness at the unhelpful climate of corruption and inefficiency. And he added that Indonesia's low labour costs were a myth: true, wages in the Indonesian garment industry were a quarter of those in South Korea—but so was Indonesian productivity.

#### A broader approach

The political imperatives are another matter. Mr Suharto, the only president most Indonesians have ever known, will be re-elected president for another five years next year. Whatever the crises that may blow up, he and his government seem sure to survive them: the economy is under strain rather than in tatters; political dissent is under tight control; ABRI, whatever its internal debate, is a cohesive body; and, as one experienced foreign observer puts it, the president "knows where all the bodies are, and every man's price".

But what happens when Suharto is no longer around? There is time enough to arrange a successor. But if Pak Harto really wants to be the Father of Development, he needs to broaden, not narrow, the political experience. He needs to allow an interpretation of *pancasila* which embraces a diversity of ideas as well as of people. That, in the end, is the message of Jakarta's teenagers.



They have a message for Pak Harto