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### *From Silkworms to Bungled Bailout: International Influences on the 1998 Regime Change in Indonesia*

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# **From Silkworms to Bungled Bailout: International Influences on the 1998 Regime Change in Indonesia**

*Edward Aspinall and Marcus Mietzner*

## **Introduction**

On May 21<sup>st</sup> 1998, President Soeharto stepped down after ruling Indonesia for 32 years as the head of his authoritarian “New Order” regime. Just a few months earlier, most commentators in both the domestic and international media had been describing his political position as unassailable. Earlier in the decade, he had brushed aside growing domestic dissent, overcome internal divisions in his regime and paid little heed to growing international criticisms of its human rights record. His regime was united, it retained formidable repressive capacity, and it was delivering strong economic growth. Opposition was weak and disorganized. Within the space of six months, all this crumbled. The Asian financial crisis – which began in mid-1997 in nearby Thailand – hit Indonesia hard, prompting the collapse of its economy and, in January 1998, an IMF-led bailout of US\$ 43 billion in pledged funds (of which around 18 billion were eventually disbursed).<sup>1</sup> The economic meltdown also led to a sharp escalation in calls for political reform, a rising wave of mass protests and, eventually, the splintering of the New Order regime. Unable to put down social unrest without resorting to extreme military violence, Soeharto stepped down. His deputy, B. J. Habibie took over as president and immediately began dismantling authoritarian political structures and replacing them with democratic ones.

In this paper, we argue that although international influences played a significant role in Indonesia’s democratic transition, Soeharto’s demise was not the consequence of diplomatic pressure or other democracy-promoting interventions. For much of his rule, Soeharto had enjoyed considerable support in Western capitals, which appreciated him as a reliable anti-communist ally, a stabilizing factor in the security of Southeast Asia, and a pragmatic economic manager open to foreign investment. Even the end of the Cold War, which had led to increased criticisms of Soeharto’s human rights record and growing external support for Indonesia’s civil society, had not seriously threatened the New Order regime. The condemnation of Soeharto’s repressive methods by Western powers remained rhetorical in nature, and foreign donors in Indonesia concentrated mostly on politically harmless development projects (ridiculed as “silkworm programs” by some aid

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<sup>1</sup> Stephen Grenville, “The IMF and the Indonesian Crisis”, *Bulletin of Indonesian Economic Studies* 40:1 (2004): 79-80. US\$ 10 billion were contributed by the IMF, while US\$ 8 billion were supplied by the World Bank and the Asian Development Bank. In addition, Indonesia provided US\$ 5 billion of its own reserves to the bailout effort.

officials). With political pressure ineffective, the real threat to Soeharto's autocracy grew in the form of Indonesia's increasing integration into the world economy. While initially a source of strength, Indonesia's exposure to the global markets eventually turned into a liability. The Asian economic crisis was clearly the trigger for the events that caused Soeharto's fall, and although it constituted an unexpected external shock, it was unintentionally aggravated by the intervention of the IMF. Accordingly, Indonesia's democratic transition was *not* a case of a regime change successfully induced by external threats, sanctions or incentives. Rather, it was in large part the by-product of a regional economic disaster and the bungled implementation of the IMF aid package. Beyond that, domestic players dominated the scene.

Section 1 of the paper provides a preliminary sketch of Indonesia's democratic transition. In particular, we explain why we choose to focus on Soeharto's resignation as the decisive moment of democratic breakthrough, rather than a longer time frame incorporating the political reforms initiated by successor governments. In section 2, we discuss Soeharto's New Order regime and the long-term domestic and international factors, both of which strengthened and undermined the regime. We also note here the beginnings of a change from the late 1980s, coinciding with the end of the Cold War, when the regime's legitimacy problems began to accumulate. Although the regime did not face a serious political threat, this period of gradual erosion of regime legitimacy and promotion of democratic ideas was important because it helped to create the environment in which the regime change of 1998 became possible. Subsequently, Section 3 analyzes the 1998 regime crisis. Focusing on the economic collapse and the rise of student-led protest, we explain how both domestic and international actors and forces – which in the past had shored up or only slightly eroded the legitimacy of the authoritarian regime – now became strong negatives for regime stability. Finally, in section 4 we evaluate the mode of interaction between domestic and international influences on Indonesia's democratization, concluding that while the developments leading to Soeharto's resignation were initiated by the Asian economic crisis and catalyzed by the failed IMF intervention, neither of these two factors was the result of intended pressure. Accordingly, once the external economic shock had substantially weakened Soeharto, domestic forces assumed the leadership of the ultimately successful campaign to topple the declining regime and demand Indonesia's democratization.

## **I. Indonesia's Democratic Breakthrough: The Collapse of the New Order Regime.**

In conceptual terms, Indonesia's political transition involved societal mobilization, the splintering of the ruling coalition and the formation of a provisional government led by former regime actors. The trigger for this sequence of events was the economic crisis of 1997/98, which impoverished large sections of the population and undermined their

support for authoritarianism. With Indonesia's currency evaporating and the purchasing power of all socio-economic classes collapsing, more and more protesters filled the streets and demanded political change. From February 1998 onwards, the regime increasingly lost control over the growing numbers of student demonstrators, who were later joined by members of the urban poor. As the government was uncertain over how to approach the swelling unrest, cracks within the regime emerged. Soeharto's handling of the crisis, and the likelihood that the 76-year old would successfully prolong his rule, were now questioned even by long-time loyalists, who began to prepare for a future without him. Their efforts to engineer a non-revolutionary transition of power were assisted by the fragmentation of organized elite opposition. Key non-regime figures disagreed over the best solution to the crisis, effectively surrendering the decision over the transition arrangements to Soeharto's protégés. As a result, Soeharto was replaced by his designated successor, Vice-President B.J. Habibie, and not by a coalition of former regime dissidents. However, despite the absence of formal negotiations, Indonesia's regime change in May 1998 can be described as a pacted transition: influential opposition leaders agreed to allow Habibie to rule for a limited period of time, provided that he liberalize the political system and hold fresh elections in the near future (legally, Habibie could have served out his full term until 2003).<sup>2</sup> Had Habibie not fulfilled his part of the "pact", the popular protests may have continued unabated beyond Soeharto's resignation.

In many respects, Habibie even exceeded the expectations of his opponents. Despite being viewed as a submissive Soeharto "student" (Habibie had famously called his mentor a "genius"), Habibie immediately opened up the political system and promised free and fair elections as soon as possible. This move reconstituted his government as a transitional administration, consolidating the 'pact' and giving him much leverage to implement further reforms. It is this rapid and unexpectedly broad liberalization of the political system by a long-time proponent of authoritarian rule that has led to debates among observers about how to date Indonesia's democratic breakthrough.

There are at least four possible ways of defining the time frame and scope of the democratic transition. The narrowest approach is to focus on Soeharto's resignation and the events leading to it. Those who take this approach do so because they see this as the decisive moment in Indonesia's democratic evolution, and as the event which initiated the subsequent dismantling of the authoritarian regime. In the weeks leading to Soeharto's resignation, the president and other leaders of his regime indicated that they wanted to preserve their authoritarian structures in the face of mounting opposition. An MPR (People's Consultative Assembly) session in March 1998 reconfirmed Soeharto in

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<sup>2</sup> R. William Liddle, "Indonesia's Democratic Opening," *Government and Opposition*, 34:1 (1999): 94-116, p. 111.

power and granted him expanded powers to preserve stability.<sup>3</sup> A few days later, Soeharto appointed a cabinet which included his own daughter and several family cronies, and in a stunningly stubborn speech on 1 May, he announced that no reform would take place before 2003. Military officers pledged to defend the regime and its main institutions. In contrast, within days of becoming president, President Habibie announced that he would free up the political system and organize democratic elections to determine a successor government. He rapidly dismantled the pillars of the New Order regime, liberalizing rules on political parties, political expression, and freedom of organization, labor and the media. The military leadership announced a “new paradigm” to reduce its political role. Hundreds of new political parties, NGOs, labor unions and other civil society organizations came into being, expressing themselves through a dramatically liberalized media. If before Soeharto’s resignation, the road to democratic transformation was shut tight, afterwards it was wide open.

A second and slightly broader approach is to view the democratic transition as the period of the Habibie interregnum itself, which lasted from Soeharto’s resignation in May 1998 to October 1999. Habibie held parliamentary elections in 1999, which were widely considered free and fair (however, legislative bodies still included non-elected legislators from the military and police). In the subsequent presidential elections, which were held in the country’s highest legislative institution, the MPR (in which around one third of the members were non-elected), Habibie was defeated and handed power to his successor, Abdurrahman Wahid. For some observers, this was the end of the democratic transition, because it signified the replacement of a non-elected government by a (largely) elected one.<sup>4</sup>

A third and more extended approach is to view the transition as ending only in 2004, when the first parliament consisting only of elected members was convened, and when the first direct presidential elections were won by Susilo Bambang Yudhoyono. In this definition of Indonesia’s democratic transition, the 1998-2004 polity was a largely experimental, semi-democratic system, a “hybrid regime”, which contained significant reserve domains of authoritarian power and the political format was moreover highly fluid.<sup>5</sup>

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<sup>3</sup> The MPR is nominally the highest institutional authority in the country. Under the New Order, the MPR consisted of the members of Indonesia’s parliament, regional representatives and functional groups. Every five years, it elected a president and vice-president, and issued policy directives for the government in the form of decrees and regulations that ranked higher than the legislation passed by parliament.

<sup>4</sup> Marcus Mietzner, “The 1999 General Session: Wahid, Megawati and the Fight for the Presidency,” in Chris Manning and Peter Van Diermen, eds., *Indonesia in Transition: Social Aspects of Reformasi and Crisis* (Singapore: Research School of Pacific and Asian Studies/Institute of Southeast Asian Studies): 39-57.

<sup>5</sup> Larry Diamond was one of the first to write about hybrid regimes: “Thinking about Hybrid Regimes,” *Journal of Democracy* 13:2 (2002): 21-35. For one application in the Indonesian context see: Edward Aspinall, “A Hybrid Order,” *Inside Indonesia*, 74 (April-June 2003): 12-14. For an example of 2004 as a key turning point, see Edward Aspinall, “Elections and the normalization of politics in Indonesia,” *South East Asia Research* 13: 2 (July 2005): 117-156.

Finally, some scholars argue that Indonesia has still not experienced a democratic transition worthy of that name, emphasizing that elites from the former regime have “captured” democratic institutions and manipulate them by “money politics” and continuing authoritarian practices. Some who make these points, however, either do not engage with mainstream democratic transitions theory, or reject it as providing an inappropriate model for examining Indonesia’s political transformation.<sup>6</sup>

While each of these approaches has value, for the purpose of this study we have decided to use the first and narrowest definition, thereby focusing on the democratic breakthrough which occurred with the resignation of President Soeharto. For us, this event was the defining moment of Indonesia’s democratic transition. Although it was followed by dramatic political conflicts, the basic democratic direction of Indonesia’s political evolution was not thereafter seriously disputed (though its scope and extent was). Narrowing the scope of our study in this way thus allows us to better identify the factors which triggered the end of authoritarian rule and the subsequent democratization.

Using broader definitions of Indonesia’s transition would require intensive discussion of the Habibie, Wahid and Megawati presidencies, which operated under political circumstances which differed immensely from those which shaped the 1998 regime change. It would also open the analysis to a very different array of international influences on democratization. After Soeharto resigned, international interest in democratic reform – including donor support – increased dramatically. Such support may have assisted Indonesia’s democratic transformation. However, it *followed* the democratic change; it did not initiate it. We have concluded, therefore, that analysis of the democracy support provided by international actors in the post-Soeharto period would be better left for a discussion of democratic consolidation.

## **II. Soeharto’s Regime: Its Long-Term Strengths and Weaknesses**

### *Repression and Development: Domestic Bases of Soeharto’s Support*

The Soeharto regime is conventionally dated from 1966, when then Major General Soeharto was granted extraordinary powers by President Soekarno amidst a major political crisis. This crisis, which had followed an economic collapse in the mid-1960s, was precipitated by a left-wing coup attempt known as the 30<sup>th</sup> September Movement. Soeharto, the army and their allies used this event to destroy the then powerful communist party (approximately 500,000 leftists were killed in a series of pogroms) and then to move against Soekarno. Soeharto became acting president in 1967 and full

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<sup>6</sup> See for example, Richard Robison and Vedi R. Hadiz, *Reorganizing Power in Indonesia: The Politics of Oligarchy in an Age of Markets* (London and New York: Routledge, 2004); Vedi R. Hadiz, “Reorganising Political Power in Indonesia: A Reconsideration of so-called ‘Democratic Transitions’,” *Pacific Review* 16: 4 (2003): 591-611.

president in 1968. His reign of 32 years makes him one of the longest-lasting non-communist authoritarian rulers in the post-World War II era. There are at least six reasons for the longevity and success of his New Order regime.

First, the New Order's *repressive capacity* secured its stability and authority throughout the archipelago. The military was the main component of the regime in the late 1960s and early 1970s, presiding over a praetorian state. Soeharto began to build an independent autocracy in the 1970s, but continued to use the military to maintain power. Present at all levels of the civilian administration, military officers carried out effective control of society. They repressed critics and built a political structure which shepherded most potential critics of the regime into bodies that were controlled by it. For instance, the surviving political parties were in 1973 forced to fuse into two parties which were required to be loyal to the regime and were kept weak by constant government intervention in their internal affairs. They competed in heavily engineered elections in which there was never serious doubt that the regime's own electoral vehicle, Golkar, would be victorious. A doctrine known as *monoloyalitas* required civil servants to support Golkar and the regime. Workers and peasants were obliged to join "sole organizations" run by military officers and their allies. Moreover, political repression was backed by an unceasing ideological campaign, in which regime leaders constantly warned of the "latent danger" of communist resurgence and other security threats, and tried to inculcate in the population a statist "Pancasila ideology"<sup>7</sup> which depicted the regime as the only authentic embodiment of Indonesian tradition and its critics as enemies of the nation.

Second, the regime was a *patrimonial polity* which was kept together by the distribution of patronage rewards to its functionaries and supporters.<sup>8</sup> The Indonesian revolution in the 1940s had destroyed many of the old aristocracies, giving rise to a new class of bureaucrats, politicians, security officers, and entrepreneurs that subsequently controlled the positions and resources of the state. This "oligarchy" also dominated the political structures of the New Order, with its members competing for power among themselves. It was held together by the distribution of patronage rewards, in which officials would reward their subordinates and camp-followers with lucrative posts in government and state enterprises, opportunities to skim money from the state budget and favored access to business contracts and credit.<sup>9</sup> The whole system resembled a

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<sup>7</sup> Soekarno had announced five ideological principles in June 1945, which he believed were suitable to reflect the ideals, customs, and convictions of all Indonesians. The five principles, collectively called Pancasila, were: nationalism, internationalism (or humanitarianism), democracy (or consent), social prosperity and belief in one God. The Pancasila guidelines were designed to overcome the ethnic, religious, social, and political differences within Indonesian society. However, the principles were also subject to diverse, politically charged interpretations, with different groups and regimes attempting to use Pancasila in their struggle for political hegemony.

<sup>8</sup> Harold Crouch, "Patrimonialism and Military Rule in Indonesia," *World Politics* 31:4 (July 1979): 571-587.

<sup>9</sup> Richard Robison, *Indonesia: The Rise of Capital* (Sydney: Allen & Unwin, 1986).



pyramidal structure for the distribution of rents, controlled from the top by Soeharto himself.

Third, the *class structure* facilitated political control. During the early New Order, Indonesia was an overwhelmingly rural society, with the rural population designated as a “floating mass” that could be politically contained. The urban working class was small, and easily controlled by the government’s tight regime of labor supervision. Much of the growing middle class owed its increasing wealth to patronage relationships with state bureaucrats and other elites.

Fourth, the regime possessed *semi-pluralist features* which were effective in co-opting and neutralizing potential opposition. The New Order did not simply repress potential critics; it also provided many of them with the space and resources to pursue unthreatening activities. Thus, there was a relatively large civil society throughout the New Order, but most organizations did not challenge the regime. This was especially the case with major socio-religious organizations, such as Muhammadiyah and Nahdlatul Ulama, Islamic organizations which counted their members in the tens of millions. The leaders of these organizations often resented the regime’s restrictions – but they also depended on the government because it provided them with space and economic support to pursue their religious, educational, charitable and social service activities. There was also political space for persons to criticize this or that aspect of regime policy, so long as they did so in acceptable language and without questioning the regime’s fundamentals. These conditions gave rise to a “semi-opposition” whereby most critics held ambivalent views about the regime and used ambiguous language to criticize it.<sup>10</sup>

Fifth, the Soeharto government managed to exploit and enhance the *historical delegitimization* of alternatives to military-backed, authoritarian rule. When Soeharto took power, Indonesia had already experimented with a variety of governmental systems and ideological frameworks, and most of them had ended in failure. Shortly after independence, Indonesia had been a federal union, but this structure was abandoned in favor of a unitary state in 1950. Subsequently, a parliamentary democracy was established, which disintegrated in 1957/58 amidst regional rebellions and ideological conflicts. Founding president Soekarno then erected a left-leaning autocracy, in which the communist party played an important role. This populist, anti-Western regime ruined Indonesia’s economy, and paved the way for the military takeover in 1965-66.<sup>11</sup> For much of its rule, the New Order government succeeded in using these failed experiments

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<sup>10</sup> For an analysis of this semi-oppositional pattern, see Edward Aspinall, *Opposing Suharto: Compromise, Resistance and Regime Change in Indonesia* (Stanford: Stanford University Press, 2005), esp. pp 4-10, 145-177.

<sup>11</sup> A succinct analysis of the decline of democratic government in post-independence Indonesia is Harold Crouch, “The trend to authoritarianism: The post-1945 period”, in Harry Aveling, ed., *The Development of Indonesian Society* (St. Lucia: University of Queensland Press, 1979): 166-204. The classic study of the period is Herbert Feith, *The Decline of Constitutional Government in Indonesia*, (Ithaca: Cornell University Press, 1962).

of the past as deterrents against political reform, claiming that more openness would lead the country back into conflict and chaos.

Sixth, and arguably most importantly, the regime enjoyed *performance legitimacy*. It strongly emphasized economic growth, opening the country to foreign investment, but also mobilizing state enterprises and a crony domestic business sector. Real income per capita grew from US\$ 70 in 1969 to US\$ 1,100 in 1997.<sup>12</sup> In 1973-83, much of the growth was driven by the international oil boom, which provided Soeharto with ample funds to overcome domestic economic downturns and political crises. In 1985-86 and over the following decade, however, Indonesia partly deregulated its economy and built up a manufacturing sector oriented to export to the world market. It managed to attract considerable foreign investment in sectors like textiles, clothing and footwear, which became major employers, and the country became less dependent on oil exports as a result.<sup>13</sup>

Despite these strong foundations of support, the regime faced episodic opposition, such as two waves of nation-wide student unrest in 1973-74 and 1977-78. However, such unrest never seriously threatened the regime and was always successfully repressed. By the mid to late 1980s, Soeharto and his “New Order” regime appeared beyond challenge.

#### *Domestic Weaknesses of the Regime: Early Signs of Erosion*

Early signs of growing legitimacy problems for the regime became visible in the late 1980s and early 1990s. These signs, though faint, were related to the ageing of the regime and its leader, and to some of its prior successes.

First, the regime began to lose the ideological hold it had once held over the population. Economic growth remained strong, shoring up performance legitimacy. However, now that it had been in power over twenty years, the regime’s political rationale was losing force: a common dilemma experienced by authoritarian regimes whose claim to legitimate authority is that they have saved the country from crisis.<sup>14</sup> New Order leaders had always argued that their tight control of society was needed to save the country from political disarray and poverty. But a new generation of Indonesians had reached adulthood which had little or no memory of the instability which had accompanied the birth of the New Order. A new middle class had come into being, many of whom desired a greater say in the conditions governing their lives, even while they still appreciated the economic growth that Soeharto brought. A rapidly growing industrial

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<sup>12</sup> Tulus Tambunan, “The Development of Industry and Industrialization Policy since the New Governance Era to the Post-Crisis Era”, (Jakarta: Kadin, 2006), p. 2.

<sup>13</sup> Anne Booth, “Development: Achievement and Weakness”, in Donald K. Emmerson (editor), *Indonesia Beyond Soeharto: Polity, Economy, Society, Transition* (Armonk and London: M.E. Sharpe, 1999): 112-13.

<sup>14</sup> Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman and London: Oklahoma University Press, 1991), p. 50.

working class was becoming restive, indicated by the increasing incidence of strikes and the formation of independent (and therefore illegal) trade unions. They and many other poorer Indonesians resented the sacrifices they were called upon to make for the sake of development, amidst obvious signs of rapidly increasing wealth in the country's elite. There was growing public discussion of the "social gap" (*kesenjangan sosial*) and of government corruption.

Second, the regime began to experience internal problems. To begin with, the age of the ruler became a major problem. Soeharto was 71 when he was re-elected for his sixth presidential term in 1993, and reports about his health assumed increasing prominence in the press and in elite discussions. Against this background, speculation about, and jockeying in anticipation of, his succession was much more urgent than in the 1970s or 1980s. Soeharto had always carefully avoided building up an heir-apparent, invariably replacing vice-presidents after only one term in office. While obviously keen to prevent the emergence of a powerful (and more youthful) contender for the presidency, Soeharto missed the opportunity to create a stable and predictable framework for the survival of the government beyond his own rule. This uncertainty over Soeharto's future and succession aggravated intra-elite conflicts and undermined the previously strong coherence of the regime. In addition, the New Order was becoming increasingly sultanistic, with Soeharto relegating most other components of the regime to agent status. The bulk of political and economic decisions were now made by Soeharto personally, assisted only by a handful of family members and cronies – a stark contrast to earlier periods of his regime, when he relied on expert advice from Western-educated technocrats. Most importantly, Soeharto's children became increasingly brazen and venal in their efforts to build business empires, prompting unease in the wider elite and critical public discussion. While his wife Siti Hartinah, who was popularly called Tien Soeharto, had long acquired the nickname "Madame Ten Percent" for her legendary greed, the president's children became extraordinarily despised symbols of the regime's corruption, nepotism and cronyism. Despite their lack of commercial expertise, Soeharto's children made billions of dollars through state contracts, monopolies and joint ventures forced upon foreign investors.

Soeharto's advanced age and the sultanization of his regime had a distinctly negative effect on the loyalty of the armed forces, the organization that had facilitated the president's rise to power two decades earlier. Soeharto retired from active military service in the late 1970s, removing him from the officer corps and making him an increasingly distant figure for younger generals and their troops. As the generation gap between Soeharto and the incumbent military elite grew, he integrated more and more civilian elements into his government, among them Muslim figures, Golkar politicians

and influential entrepreneurs.<sup>15</sup> This led to dissatisfaction in the officer corps, which ultimately escalated in 1988. The conflict erupted after armed forces commander L.B (“Benny”) Moerdani had told Soeharto that his family’s businesses were causing concern in the military and the wider public, asking him to tighten his control over his children. Soeharto was outraged, firing Moerdani and moving to destroy the latter’s vast network of loyal commanders. Far from reducing his nepotistic approach, Soeharto instead applied it to the armed forces as well. From the early 1990s onwards, a succession of relatives, former adjutants and close family friends occupied key positions in the army and other military services. This maneuver initially consolidated his grip over the military elite, but fostered quiet dissent among younger officers, especially those in the staff and command schools in Bandung. In internal seminars and discussion circles in the late 1980s and early 1990s, some officers suggested that the military should distance itself from Soeharto in order to avoid being tainted by his increasing unpopularity.<sup>16</sup> This cautious but growing criticism of Soeharto among junior military leaders focused, among others, on the regime’s suppression of any dissenting views in society and the elite.

These intensifying tensions prompted Soeharto and other regime actors to initiate partial liberalization in the early 1990s. Known by its Indonesian term, *keterbukaan* or “openness”, regime leaders stated that they would now be more tolerant of societal criticism. In a pattern typical of liberalization in authoritarian regimes, however, the loosening of political controls opened the way for increased opposition.<sup>17</sup> The NGO movement had been slowly building up strength since the 1970s; the government estimated there were 8,000 NGOs by 1996<sup>18</sup>, many of which were becoming much more critical of the regime. While most NGOs avoided politics and instead promoted alternative development, some raised increasingly sensitive issues, like human rights abuses, labor rights, and corruption. Such NGOs were more consistent than their larger societal counterparts (like NU and Muhammadiyah) which were at least partly co-opted by the regime. A small but radical student movement organized overtly anti-government demonstrations and formulated strategies for ending the regime. There was also increasing commercial competition in the media landscape, triggering unprecedented critical reporting especially in the print media. Politically aware Indonesians could now

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<sup>15</sup> Max Lane, *Openness, Political Discontent, and Succession in Indonesia: Political Developments in Indonesia, 1989-9* (Australia-Asia Paper No. 56. Nathan, Queensland: Centre for the Study of Australia-Asia Relations, Griffith University, 1991).

<sup>16</sup> Jun Honna, “Military Ideology in Response to Democratic Pressure During the Late Suharto Era: Political and Institutional Contexts”, in Benedict R. O’G Anderson, ed., *Violence and the State in Suharto’s Indonesia* (Ithaca, New York: Cornell University, 2001): 54-89.

<sup>17</sup> Guillermo O’Donnell, and Philippe C. Schmitter. *Transitions from Authoritarian Rule: Tentative Conclusions About Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986), pp. 26–8, 48–56; Scott Mainwaring, “Grassroots Popular Movements and the Struggle for Democracy: Nora Iguacu,” in Alfred Stepan, ed., *Democratizing Brazil: Problems of Transition and Consolidation* (Oxford: Oxford University Press, 1989), 168–204. at pp. 196–97.

<sup>18</sup> *Republika*, November 4, 1996.

gain much information about previously taboo issues like Soeharto family businesses, infighting in the regime, or internal military developments. In 1993, for the first time a major political breakout seemed possible when the oppositional mood spread to one of the regime's tolerated political parties, the PDI (*Partai Demokrasi Indonesia*, Indonesian Democracy Party), which elected Megawati Soekarnoputri – Soekarno's popular daughter – to its leadership, against Soeharto's wishes. Unlike in previous decades, it appeared now that the regime could face a serious electoral challenge.

Even though this escalation of opposition did not yet immediately threaten his rule, Soeharto responded by reversing the *keterbukaan* policy and clamping down once more on criticism. In 1994 he banned three of the country's most critical news magazines.<sup>19</sup> In 1996, he removed Megawati from the leadership of her party by way of a clumsily military-organized party congress packed with government stooges. This move prompted large protests, which in turn led to a government crackdown and the persecution of leftist activists. By 1997, there was a political impasse. There was widespread dissatisfaction with Soeharto's government, but it was mixed with continuing gratitude for his delivery of economic growth. Moreover, few Indonesians believed that it was possible to seriously challenge the regime.

### *Oil, Trade and the Cold War: International Factors Supporting the Regime*

The Soeharto regime was born out of a bloody conflict between Indonesian communists and their foes. The regime received international support in accordance with these Cold War origins. During the mid-1960s, the United States and its allies had feared that Indonesia would be the next Southeast Asian “domino” to fall to communism. They were relieved when the army-led regime came to power. As *Time* magazine put it in an often-quoted phrase, the anti-communist massacres were “the West's best news for years in Asia.”<sup>20</sup>

Over subsequent decades, the Soeharto government continued to receive important international political and military support. This was not only because of its anti-communism, but also because of Indonesia's important geo-strategic position (especially because it dominated the Malacca Strait through which much shipping passed, including oil supplies from the Middle East to Japan) and its growing importance as a site of foreign investment. The Soeharto government did not enter into formal security arrangements with the U.S. or its allies (except for a security pact with Australia which was signed very late in the piece, in 1995), or host foreign security bases. However, it did receive military aid. Many of the armed forces' senior officers were trained by the United

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<sup>19</sup> Janet Steele, *Wars Within: The Story of Tempo, An Independent Magazine in Soeharto's Indonesia* (Jakarta: Equinox Publishing, 2005).

<sup>20</sup> *Time*, July 15, 1966, p. 44.

States and Indonesia received most of its military equipment from the same source. Between Indonesia's invasion of East Timor in 1975 and the early 1990s, Indonesia procured weaponry worth US\$1.25 billion from American contractors. This included US\$ 112 million in arms sales by the Carter administration in 1977, and equipment contracts valued at more than US\$ 1 billion under the Reagan government between 1982 and 1984. After 1993, U.S. military sales to Indonesia declined significantly, but still totaled US\$ 148 million for the period leading to Soeharto's fall. At the same time, 2,600 Indonesian officers were educated in U.S. war colleges and schools under the International Military Aid and Training Act (IMET) in the 1970s, 1980s and 1990s. This brought the total number of Indonesian IMET graduates since 1950 to 7,300.<sup>21</sup>

Through most of its history, the major Western powers were not only reluctant to criticize Soeharto's government; they also actively supported some of its most controversial actions. For example, Soeharto's abovementioned decision to invade the former Portuguese colony of East Timor in response to the growth of the leftist anti-colonial movement Fretilin there in 1975 was made with the tacit approval of Western governments. U.S. President Gerald Ford visited Jakarta the day before the invasion, effectively giving Soeharto a green light. In a meeting with his Indonesian counterpart, Ford appeared deeply impressed by Soeharto's explanation that Fretilin was in essence a "communist" group, and he promised that "we will understand and will not press you" should Jakarta decide to invade the territory. U.S. Secretary of State Henry Kissinger, who was also in the meeting, only asked Soeharto to postpone the invasion until the American delegation had returned to Washington, and to refrain from using U.S.-made arms.<sup>22</sup> Not surprisingly, Washington continued its sale of military equipment to Indonesia after the invasion, and despite Kissinger's formal reminder, American weaponry became increasingly important for prosecuting the war effort in East Timor.

In addition to Indonesia's importance as an important U.S. ally in regional security, the government was also much praised for its successes in economic and social development. For instance, Soeharto was awarded a prize by the FAO (Food and Agriculture Organization of the United Nations) in Rome in 1985 for achieving self-sufficiency in rice, an honor which he reportedly treasured.

Indonesia's immediate geographic environment was also supportive of its authoritarian regime. For most of the Soeharto period, Indonesia's closest Southeast Asian neighbors (Malaysia, Singapore, Thailand, the Philippines and Brunei) were ruled

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<sup>21</sup> Most of this information can be found at the website of the Federation of American Scientists, which provides military sales figures for numerous countries. See <http://www.fas.org/asmp/profiles/indonesia.htm#Arms%20Sales%20Tables> (accessed on April 11, 2008). See also International Crisis Group, "Indonesian-U.S. Military Ties", Indonesia Briefing (Jakarta/Washington/Brussels, 17 July 2001), p. 3.

<sup>22</sup> Embassy Jakarta Telegram 1579 to Secretary State, 6 December 1975 [Text of Ford-Kissinger-Suharto Discussion], Secret/Nodis, Source: Gerald R. Ford Library, Kissinger-Scowcroft Temporary Parallel File, Box A3, Country File, Far East-Indonesia, State Department Telegrams 4/1/75-9/22/76.

by sympathetic authoritarian and semi-authoritarian governments. Indonesia took a leading role in the formation of ASEAN (Association of Southeast Asian Nations), a body which emphasized political stability and economic development, and viewed non-interference in members' internal affairs as a key principle. In the 1990s, in the face of greater Western pressure to promote human rights and democratic values, ASEAN leaders (notably, Singapore's Lee Kuan Yew and Malaysia's Mahathir Mohamad) promoted an alternative vision of "Asian Values", which stressed social order, harmony and, by implication, authoritarianism. This effort was enthusiastically supported by Indonesian diplomats. Indonesia was also a member of other international bodies, such as the Non-Aligned Movement and the OIC (Organization of the Islamic Conference), a majority of the members of which were also non-democratic and provided additional supportive communities.

Even more crucial than the political and military backing which the Soeharto government received was the economic support. Soon after Soeharto came to power, a multi-country donor group, the IGGI (International Governmental Group on Indonesia) was formed to support Indonesia's economic stabilization and, later, its economic development. IGGI included Western European countries, Japan, the U.S., the World Bank and other donors. It ensured a massive flow of development assistance to Indonesia: at the second meeting of the organization, in 1968, for example, the U.S. pledged US\$ 163.9 million and Japan pledged US\$ 110 million.<sup>23</sup> More important than direct grants were loans, however. In the 1990s, Indonesia received every year around US\$ 5-7 billion in credits and loans for development projects from the IGGI and, later on, from its successor organization, the CGI (Consultative Group on Indonesia).

Foreign investment also grew substantially over the regime's 32 years, contributing to its economic success and thus shoring up its performance legitimacy.<sup>24</sup> Between 1990 and 1994 alone, foreign capital inflow rose from US\$ 5.997 billion to US\$ 9.062 billion.<sup>25</sup> At first, such investment was overwhelmingly concentrated in the hydrocarbons, mining and timber industries, but by the end of the Soeharto regime it had grown massively in manufacturing and was also increasing rapidly in the financial sector and services. By 1995, 67.03 percent of all transactions at the Jakarta Stock Exchange were made by foreign investors.<sup>26</sup> Clearly, transnational corporations were not interested in promoting democracy; in fact, they profited from tight labor regulations and high levels of social control.

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<sup>23</sup> Annette Clear, *Democracy and Donors in Indonesia*, (Ph.D. dissertation, Columbia University, 2002), p. 81.

<sup>24</sup> Hal Hill, *The Indonesian Economy Since 1966: Southeast Asia's Emerging Giant* (Cambridge; Melbourne: Cambridge University Press, 1996), p. 78 notes that Indonesia was not a major recipient of foreign direct investment when viewed in international comparative perspective.

<sup>25</sup> Alexander Irwan, "Financial Flows and the Environmental Strategy in Indonesia in the 1990s", (World Resources Institute, 1998), p. 5.

<sup>26</sup> Irwan, "Financial Flows", 6.

Decades of economic growth led to greater social and cultural links with other countries. There was an influx of expatriate executives into Indonesia, both to Jakarta and other regions. The presence of affluent foreigners not only provided an extra stimulus to the economy, but also signaled to the outside world that Indonesia was a stable, safe and – despite its repressive regime – respectable country to live in. Many foreign nationals worked in Bappenas (the National Planning Agency) and other government agencies concerned with economic development. The government was anxious, however, to restrict these foreigners to advisory roles, and insisted that it remain in charge of running the programs. In addition to the emerging expatriate community, the number of foreign tourists also increased steadily, filling Indonesia's coffers with billions of dollars and distracting from the more brutal sides of Soeharto's rule. In 1996, 5 million foreign tourists entered the country - most, however, visited only the island of Bali and interacted little with ordinary Indonesians. In the same vein, Indonesia's citizens remained relatively isolated from global communications and information networks. While expatriates and tourists could buy foreign newspapers and magazines at the beach and make phone calls from their hotel rooms, average Indonesians found it difficult to access international news or establish communication lines with other countries. The underdevelopment of Indonesia's telecommunications system was as much responsible for this as was the government's interest in controlling information flows into and out of its territory.<sup>27</sup>

Jakarta and other urban centers were also host to cultural and language education institutions from Germany, France, the UK, Italy and other countries. They offered scholarships to Indonesians who wanted to study abroad, or citizens of their countries who wanted to spend an exchange year in Indonesia. The German Academic Exchange Program DAAD, for example, opened its offices in Jakarta in 1990. Like the increasing number of foreign businesspeople, the expanding cultural exchanges helped the autocratic regime to present itself as open-minded and modern. Most importantly, the continued economic boom fueled the interaction of more prosperous Indonesians with the international community, helping the New Order to showcase its progress. As the country's wealthy elite and middle classes expanded, more families sent their children overseas to study. The country's wealthy elite also traveled frequently, especially to neighboring countries (Singapore was a favored destination for shopping, medical treatment and recreation). Far more significant numerically was the outflow of low-skilled workers who left Indonesia (many of them illegally) to work elsewhere, especially Malaysia, East Asia and the Middle East. For instance, the population of Foreign Domestic Helpers from Indonesia in Hong Kong was 1,000 in 1990, but reached more

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<sup>27</sup> In 1998, internet was only available at post offices and very few private homes. International cable or satellite television was only accessible in hotels or other exclusive venues that could afford such a luxury. Nevertheless, students often printed underground newsletters from the net and distributed them among fellow demonstrators, and they were aware of the importance of CNN coverage of their activities.



than 20,000 in 1996, before exploding to 92,000 in 2005. The trend was similar in Malaysia, with the total number of officially registered Indonesian workers gradually increasing in the 1990s to hit 1 million in 2005, with many more unregistered.<sup>28</sup> These people were not economically powerful or politically influential, however, so there was no significant overseas diaspora that could (or, in fact, wanted to) push for change in Indonesia.

The most important international factor that influenced the stability of Soeharto's regime, however, was Indonesia's growing economic integration into, and dependence upon, the rest of the world. Significantly, this increased interconnection with global markets had both a stabilizing and destabilizing effect on the New Order government. On the one hand, it helped the regime to offset the impact of dropping oil prices, which had threatened to undermine economic growth in the mid-1980s. With much of the boom in the 1973-83 period stimulated by oil sales, the halving of the oil price in 1985-86 had the potential to destroy the economic foundations upon which Soeharto's political legitimacy rested. But the autocrat reacted quickly by diversifying Indonesia's economy, developing a competitive export industry that soon became the main engine of economic expansion. As a result, by 1997-98, only 18 percent of Indonesia's total exports were oil and gas products, down from 70 percent in 1981. In 1992, the Jakarta Stock Exchange was privatized, sending further signals that Indonesia was serious about its program of economic deregulation. It is no exaggeration to say that this dramatic overhaul of the Indonesian economy prevented a major regime crisis – it is uncertain whether Soeharto would have been able to stay in power had the economy collapsed together with the oil price.

On the other hand, Indonesia's new orientation to international export, credit and monetary markets made the country more vulnerable to short-term fluctuations in the world economy. Borrowing heavily from international creditors, Indonesia became dependent on foreign aid, and its debt increased rapidly. By 1992, its foreign debt was already 67 percent of GDP.<sup>29</sup> At the time of the transition in 1998, its foreign debt ratio was 147 percent of GDP, and almost all of its debt was to international donors.<sup>30</sup> And even if foreign investors were more than happy to make deals with Soeharto's family and cronies, there was a rising awareness in the international business community that Indonesia's commitment to free market principles was structurally at odds with the rampant economic favoritism and corruption in the president's inner circle. Accordingly, Indonesia's new linkage to the global economy was a double-edged sword for Soeharto: while helping him to consolidate his rule in the short term, it also exposed his regime to the impulsiveness and uncontrollable power of financial markets abroad.

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<sup>28</sup> Asian Development Bank, "Workers' Remittance Flows in Southeast Asia", (Manila: Asian Development Bank, 1996), p. 5, 11.

<sup>29</sup> Hill, *The Indonesian Economy Since 1966*, p. 72.

<sup>30</sup> Binny Buchori and Sugeng Bahagijo, "The Case for Debt Relief", *Inside Indonesia* 61 (January 2000).

*The End of the Cold War: International Factors Challenging Soeharto*

Despite the overwhelmingly supportive international context, some international developments put pressure on the regime. From the 1970s, but becoming stronger with the end of the Cold War, there were growing international calls for human rights protection in Indonesia and more support for domestic groups favoring political and social change.

In the New Order's final decades, the governments of the United States and other Western governments tempered their ongoing support for Soeharto with some pressures for reform. For example, in the late 1970s, European governments (especially the Dutch) as well as the Carter administration in the United States pressured Indonesia to release the tens of thousands of alleged communists it had been holding in prison camps since the 1960s.<sup>31</sup> With the end of the Cold War in the late 1980s, the U.S. and other Western powers suddenly found authoritarian military-based regimes like Soeharto's less important as allies against communism and there was growing emphasis on the universality of human rights and democracy in international political affairs. Thus, for example, the outgoing U.S. ambassador Paul Wolfowitz attracted domestic media attention in Indonesia in 1989 when he called for greater political openness to match the increased economic openness being produced by deregulation policies. It would be a ludicrous exaggeration to suggest this single speech prompted the *keterbukaan* policies of subsequent years (as is sometimes claimed), but it did add to the growing domestic calls for loosening of political controls.

A more dramatic chorus of international criticism occurred following the Santa Cruz massacre in East Timor in 1991, an event which attracted much publicity outside Indonesia when a foreign journalist managed to smuggle out gruesome footage. This event prompted the first attempts to impose overt democratic conditionality on some aid received by Indonesia, and even sanctions. The Dutch government sharply criticized the massacre and tried to make further development assistance conditional on improved human rights protection. The U.S. imposed minor sanctions on the Indonesian military, suspending the IMET training programs for Indonesian military officers (American arms sales to Indonesia continued). The European parliament also supported sanctions, although this move was largely symbolic. A similar move occurred when members of the U.S. congress – responding to lobbying by Human Rights Watch and similar groups on

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<sup>31</sup> There was virtually no domestic constituency pushing for this move (so strong was the stigma of association with communism), yet the regime eventually complied, doing so partly because of its dependence on continued U.S. military assistance to prosecute the war in East Timor, and for economic support in the wake of the bankruptcy of the state oil company Pertamina in the mid-1970s. Greg Fealy, *The Release of Indonesia's Political Prisoners: Domestic Versus Foreign Policy, 1975-1979* (Clayton: Centre of Southeast Asian Studies, Monash University, 1995).

restrictions of labor organizing in Indonesia – threatened to remove Indonesia from the “General System of Preference” rights, under which it received favored access to the U.S. market for certain commodities.<sup>32</sup>

Soeharto responded to such pressure with a combination of symbolic concessions and resistance. For example, in response to the pressure on labor laws, his government restructured the government-run union (replacing its centralized structure with a federation) and hired a public relations firm in Washington, but it did not change the repressive labor control regime. In response to the outcry about the Santa Cruz massacre, a military commission of inquiry was formed and some low-ranking officers were punished; but the overall pattern of military operations in East Timor did not change. The condemnation on Santa Cruz and wider criticisms about human rights – especially around the time of the 1993 World Conference on Human Rights in Vienna – also prompted the government to form a National Human Rights Commission (Komnas HAM) which became a surprisingly critical official voice on human rights abuses in the regime’s last five years.<sup>33</sup>

In response to the Dutch pressure, however, Soeharto refused to accept further Dutch assistance and disbanded the IGGI, the multi-country donor coordination group. The Netherlands was a less important source of foreign assistance to Indonesia than the U.S., in 1991 providing only US\$ 91 million, just under two percent of total IGGI assistance of \$4.8 billion.<sup>34</sup> It was also more vulnerable politically because it was the former colonial power. With the IGGI donors (minus the Dutch) later regrouping in the CGI and providing even greater assistance, Soeharto’s move set an important precedent in relations with donors, sending a warning that Indonesia would not accept political pressure. In this case, the threat of sanctions was not only ineffective, it backfired.

Theoretically, however, Soeharto’s government was increasingly vulnerable to economic, political, diplomatic and military sanctions. As Indonesia’s dependence on export revenues increased, and its foreign debt piled up, economic sanctions could have been effective. Similarly, the U.S. was the major supplier of military equipment to Indonesia. Cutting off arms sales would have hurt the military substantially. But most donors had substantial interests in Indonesia which they did not want to risk. Oil, gas and mining companies made huge profits in the country, and some of them did not mind if Indonesia’s security forces used a heavy-handed approach to quell social and political

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<sup>32</sup> Interview with Sidney Jones, Jakarta, 30 January 2008. Chris Manning, *Indonesian Labour in Transition: An East Asian Success Story?* (Cambridge: Cambridge University Press, 1998), pp. 221-22; Vedi R. Hadiz, *Workers and the State in New Order Indonesia* (London and New York: Routledge, 1997), pp. 165-66.

<sup>33</sup> Komnas HAM also received foreign funding (from The Asia Foundation) to cover its basic operating costs (even its electricity bills) from 1996: interview with Douglas Ramage, 8 February 2006.

<sup>34</sup> Andrew MacIntyre, “Indonesia in 1992: Coming to Terms with the Outside World”, *Asian Survey* 33: 2, (February 1993): 204-210, p. 206. For instance, the government took threats from the U.S. on labor more seriously than it did the Netherlands. Hadiz, *Workers and the State*, p. 166 cites a 1993 Indonesian Ministry of Foreign Affairs document which put it bluntly: “The Indonesian attitude toward the lifting of the US GSP cannot be the same as our attitude toward Dutch aid, because the US has more leverage...”

unrest. Mobil Corp., for example, ran a large oil field in Aceh from 1971, which in the 1990s generated around a quarter of its global revenues.<sup>35</sup> With separatist rebels threatening the site, Mobil paid the military to secure it and turned a blind eye to human rights violations that occurred in the process. Similarly, Louisiana-based Freeport-McMoRan mined the world's largest copper and gold deposit in Papua since the 1970s, and also recruited the armed forces to fend off occasional attacks by local insurgents.

Against this background, Soeharto's move against the Dutch demonstrated that Indonesia understood its importance for the West as a political ally, natural resource supplier, and importer of high-technology equipment to support its industrialization. Accordingly, no Western country wanted to risk relations with Indonesia by stressing the human rights issue beyond symbolic gestures.

Thus, attempts to pressure Indonesia by setting democratic conditions for aid or by imposing sanctions were both weak and ineffective. In the case of the U.S. 1991 sanctions, only the training component of the military assistance was affected. Mostly donors mildly suggested that Indonesia should improve its human rights record or improve oversight over some programs to prevent leakage caused by corruption. But no donors indicated that aid would be cut off completely if Indonesia did not comply. Foreign governments said they raised sensitive issues like human rights "behind closed doors" in their meetings with senior regime leaders, rather than risking counter-productive frontal strategies.

A second and arguably more important source of pressure on the regime was growing transnational civil society links and foreign donor support for Indonesian NGOs. As previously noted, from the 1970s, an increasingly large NGO sector emerged in Indonesia. By the 1990s, although NGOs were never a threatening source of political opposition to the regime, they did substantially erode its legitimacy by promoting sensitive issues to do with human rights, labor, legal reform and democratization. Almost all NGOs were supported, directly or indirectly, by foreign funds. The main private foundations were The Asia Foundation and Ford Foundation. While The Asia Foundation received much of its funds from USAID, the Ford Foundation was largely self-funded. The German party foundations also had offices in Jakarta; they were funded largely through their state allocations and grants from the foreign ministry. Representatives of numerous other international NGOs, such as NOVIB (Nederlandse Organisatie Voor Internationale Bijstand, Dutch Organization for International Aid), Oxfam and HIVOS (Humanistisch Instituut voor Ontwikkelingssamenwerking, Humanistic Institute for Development Cooperation) also regularly visited Indonesia and provided substantial funding for Indonesian counterparts.

Organizations with permanent offices in Indonesia were subject to careful scrutiny and approval processes by the Indonesian government when they made grants to

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<sup>35</sup> Jay Solomon, 'Mobil Sees Its Gas Plant Become Rallying Point for Indonesian Rebels', *Wall Street Journal*, 7 September 2000.

Indonesian recipients. For example, every Ford Foundation grant had to be approved by the State Secretariat; the Asia Foundation had a rather looser agreement (signed in 1971, renewing an earlier agreement), which approved Foundation activity in various sectors and which meant that individual grants could be signed off by sympathetic officials at the national or provincial level.<sup>36</sup> By contrast, foreign NGOs whose members merely visited Indonesia from time to time, and sent their money in from the outside, were less bound by these restrictions; and it was these organizations that provided most of the funds for groups active in politically sensitive areas like labor rights.<sup>37</sup>

In the 1970s, most donor support for Indonesian NGOs was framed in terms of promoting alternative development and was directed at supporting micro credit, health and similar programs. In American development circles, these aid projects were jokingly referred to as “silkworm” programs, alluding to a particular grant that had focused on income-generation for Indonesian silkworm farmers.<sup>38</sup> However, from the late 1970s and early 1980s the focus on development began to broaden and shift. Overseas funding bodies began to support other groups, such as Indonesia’s premier human rights organization, the Legal Aid Institute (LBH), as well as some labor groups (for LBH, for many years the main source of funding was the Dutch organization NOVIB). But for much of the 1970s and 1980s, even LBH and similar rights-oriented NGOs did not speak in terms of overthrowing the regime or promoting democratization. Rather, their goal was to improve “rule of law” or promote people’s “legal awareness”. This too began to change in the early 1990s when growing political assertiveness by a wing of Indonesian NGOs coincided with, and was partly enabled by, willingness of international donors to fund them. More and more NGOs became involved in sensitive political issues – such as the rights of organized labor or of poor people forced off their land to make way for development projects.<sup>39</sup> Some Indonesian NGOs called on the World Bank and other foreign donors to cease funding projects in Indonesia which had negative impacts on the environment and local people; others began to criticize the regime more openly for its human rights abuses. The premier environmental NGO, Walhi, took the government to court about misuse of funds in a reforestation program. LBH declared that it would now not merely provide pro bono legal assistance to individual clients, but be a *motor*

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<sup>36</sup> Interviews with Hans Antlov and Douglas Ramage, Jakarta, 8 February 2008.

<sup>37</sup> Interview with Asmara Nababan, former executive secretary of INFID, Jakarta, 8 February 2008. European groups (many of which had Christian backgrounds and were influenced by the growth of social justice ideas in both Protestant and Catholic international development agencies through the 1980s) were especially important in this respect.

<sup>38</sup> Interview with R. William Liddle, Jakarta, 29 January 2008.

<sup>39</sup> For discussions of the increased NGO activism of this period, see Philip Eldridge, *Non-Government Organisations and Democratic Participation in Indonesia* (Kuala Lumpur: Oxford University Press, 1995); Bob S. Hadiwinata, *The Politics of NGOs in Indonesia: Developing Democracy and Managing a Movement* (RoutledgeCurzon: London and New York, 2002), Aspinall, *Opposing Suharto*, pp. 86-115.

*demokratisasi* – a motor of democratization – leading a broad coalition in favor of democratic change.<sup>40</sup>

Arguably, the high point of NGO political ambitions under Soeharto was reached in March 1996, when a group of NGO activists formed KIPP (Komite Independen Pemantauan Pemilu, Independent Election Monitoring Committee). The foundation of KIPP was partly sponsored by NDI, which used monies made available through the National Endowment for Democracy (NED).<sup>41</sup> In the past, pro-democrats had largely dismissed Indonesia's general elections as a stage-managed irrelevance (many had ineffectively promoted election boycotts in the past), but now some of them felt that, with the rise of Megawati Soekarnoputri to the leadership of the PDI, there was going to be a genuine electoral challenge to the regime. KIPP founders partly modeled their organization on NAMFREL, a Philippines electoral monitoring organization which had helped to expose massive fraud in the 1986 general election in that country and thus helped to trigger the “people power” revolution which had led to the fall of the Marcos regime. Some Indonesians dreamed of replicating this experience. Thus beyond KIPP, there were several other organizations that focused on the 1997 elections - despite the fact that Megawati's PDI was eventually not allowed to field candidates. For example, the partially foreign-funded NGO LP3ES (Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial, Institute for Social and Economic Research, Education and Information) organized a quick count for Jakarta, and while its results were insignificant due to the intensive “pre-rigging” of the polls, the exercise allowed the group to learn skills that would come in handy for later, more competitive elections after the regime change in 1998.

While private overseas donors (especially the European NGOs) took the lead in funding the most critical NGO activism, the major foundations with branch offices in Jakarta also began to venture into more politically sensitive work. For instance, The Asia Foundation pursued what its Indonesia director later referred to as a “let a thousand flowers bloom” approach which aimed to fund alternative voices on controversial topics of public debate. The Foundation even funded human rights organizations in the provinces of Irian Jaya, East Timor and Aceh, where the military was pursuing dirty wars against independence movements. Such funding support was not aimed at dramatic political transformation but was instead conceived as assisting the gradual opening up of civil society which Foundation staff believed was already underway in Indonesia. As the

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<sup>40</sup> A four year plan prepared for the organization at this time for foreign donors included such goals as increasing development of “democratic forces in society” and of an “increasingly democratic system of government”: *Taking Part in Democratization: YLBHI's Four Years Plan 1994-1998* (Jakarta: Indonesian Legal Aid Foundation, 1994), p. 15.

<sup>41</sup> National Endowment for Democracy, ‘Variety of actors, programs supports change in Indonesia’, at: <http://www.ned.org/about/multisectoral.html> (accessed on April 13, 2008).

organization's Indonesia director later put it: "We assumed that Indonesia was on the right track for a long-term, evolutionary process."<sup>42</sup>

From the late 1980s Western governments also began to more openly sympathize with Indonesian NGOs. Again, European countries were in the lead, a trend signaled by a 1991 dialog held in Jakarta between Netherlands Development Cooperation Minister J. P. Pronk and radical NGO activists who were highly critical of IGGI assistance to the Soeharto government. But by the mid-1990s, even the usually more conservative USAID office in Indonesia began to consider a change in strategy. For much of the 1970s and 1980s, it had supported distinctly non-political programs, mostly in health and agriculture. According to former USAID mission director William Fuller, "this was not so much because of a directive from Washington (in fact, there was none), but due to the domestic circumstances at that time."<sup>43</sup> With the European organizations increasingly prepared to support government-critical groups, however, USAID came under pressure to follow suit. Therefore, it developed a "democracy and governance" program, supporting various Indonesian groups which promoted rule of law and the empowerment of civil society. Despite this new approach, the amount of money USAID offered for pro-democracy programs made up only a small proportion of the total U.S. aid budget in Indonesia. In 1997, the year before the transition, USAID Indonesia allocated US\$ 5.9 million for its goal of "Increased Effectiveness of Selected Institutions which Support Democracy", out of a total budget of US\$ 56.7 million.<sup>44</sup> Accordingly, as one of the consultants involved in designing this project formulated it, this democracy-building component "Didn't shape the basic [U.S.] policy which was to support Soeharto who had done so many good things for the U.S."<sup>45</sup> A former U.S. ambassador to Jakarta was even blunter: "We supported democracy programs [in Indonesia] for decades. But they achieved nothing. They were just sops to our domestic constituencies."<sup>46</sup>

### *The Regime Prior to the Crisis: Challenged but Stable*

It is important not to exaggerate the pressures placed on the Soeharto regime by the shifting international climate. Indonesian NGOs, being almost entirely dependent upon foreign funds, were the main domestic embodiment of the new post-Cold War mood in world affairs. They were an increasingly important and vociferous part of the Indonesian political scene in the 1990s. But they were ill-equipped to pose a direct political threat to the regime. They were led by a small intellectual elite who lacked organized links to the

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<sup>42</sup> Interview with Douglas Ramage, Jakarta, 8 February 2008.

<sup>43</sup> Interview with William Fuller, San Francisco, 26 October 2007.

<sup>44</sup> USAID, Fiscal Year 1997 Congressional Presentation, at: <http://www.usaid.gov/pubs/cp97/countries/id.htm>, (accessed on April 13, 2008).

<sup>45</sup> Interview with R. William Liddle, Jakarta, 29 January 2008.

<sup>46</sup> Confidential interview, Washington D.C., 28 March 2008.

bulk of the population, including the semi-oppositional political parties. In part, the isolation of Indonesian NGOs was a direct consequence of the conditions which foreign donors placed upon their grants: they were required to be program-oriented and apolitical; some of them were funded to raise sensitive issues and place them on the public agenda, but they were not expected to lead an opposition movement against the government (and almost all foreign donors – especially those with wide-ranging programs in Indonesia – would have de-funded any organization which tried to do so). The distancing of civil society organizations from the political mainstream was mutual in nature: Megawati Soekarnoputri, for instance, shared the regime’s suspicions of foreign-funded NGOs that promoted “Western” ideas of universal values, and she consequently refused to closely cooperate with them. Even Abdurrahman Wahid, whose NU was a major recipient of foreign funds, was increasingly reluctant to engage with NGOs critical of the government, especially when, after several years of tense relations with Soeharto, he reconciled with the president in 1996.

It would be equally wrong to overstate the direct pressure being placed on the Soeharto regime by the new emphasis on human rights in international political discourse. For every time a foreign government made a minor or oblique criticism of the Soeharto regime, there were many more instances where they praised it for the stability and economic progress it had brought (such that, in mid-1997 Australia’s deputy prime minister, Tim Fischer, went so far as to publicly nominate Soeharto as “the man of the world of the second half of this century.”) Such praise focused not only on his achievements in the domestic arena, but also acknowledged his contribution to the security of Southeast Asia. In contrast to his predecessor Soekarno, who had pursued an aggressive and openly expansionist foreign policy, Soeharto refrained from threatening Indonesia’s neighbors and even played a constructive role in ending the war in Cambodia. Accordingly, an officer at the U.S. Pacific Command in Hawaii pointed to the billions of dollars that America’s allies like Australia and the Philippines saved because of Soeharto’s non-confrontational approach: “Imagine how much it would cost if Indonesia was still controlled by a lunatic like Soekarno, and Australia and the Philippines would have to build defense lines along their coasts – Soeharto was the best that could happen to us, from a regional security point of view.”<sup>47</sup> As a result, foreign development assistance and investment continued to pour into Indonesia.

But it would also be mistaken to entirely dismiss the pressures or their effects. Certainly, it is not difficult to find evidence that regime leaders in the mid-1990s felt that their New Order was under threat by a confluence of foreign pressure and domestic subversion. Senior military officers and other officials increasingly warned the public of the dangers of *globalisasi* and of the need to increase Indonesia’s “national resilience” (*ketahanan nasional*) in the face of negative international influences. Often they linked

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<sup>47</sup> Discussion with officer at the U.S. Pacific Command in Honolulu, Hawaii, March 2003.



these dangers explicitly to the threat of domestic groups who “hid behind the mask of human rights” (*berkedok HAM*) or acted as “national traitors” (*pengkhianat nasional*) - a reference to Indonesian NGO activists who campaigned against the government in international forums.<sup>48</sup> Overall, the regime mood was one of belligerence in the face of these pressures, but there were also important conciliatory gestures and minor reforms (such as the establishment of Komnas HAM). Local NGO actors also felt that international attention provided them with some protection because “after Santa Cruz the government tried to defend its image in international eyes.”<sup>49</sup>

The confluence of international and domestic influences contributed to a subtle change of political discourse during the 1990s. By the mid-1990s, key themes like “human rights” and “democratization” were no longer the political taboos they had been in the 1980s. In the major newspapers, in the Jakarta seminar circuit, and in the newsletters and bulletins published by NGOs and (often foreign-funded) think tanks, various ideas about political reform circulated widely. Even within the regime, a handful of independent judges, parliamentarians and some marginal state organs exposed transgressions. They included a judge who declared the banning of *Tempo*, the most famous of the proscribed newsmagazines, illegal, and the state-sponsored (but foreign funded) human rights organization Komnas HAM. Slowly but surely, the regime was being delegitimized. Slowly but surely, too, an alternative set of ideas associated with political liberalism (even if it was rarely labeled as such) was gaining ground.

The domestic dynamics noted in previous sections doubtlessly played the major role in this shift. But NGOs – and the foreign donors upon which they relied – were a significant player in it<sup>50</sup>, as was a perception that, internationally, the political tides had turned. The resulting atmosphere was important, not because it directly generated a political crisis for the regime (it did not), but because it helped to set the direction a resolution would take once that crisis began. In the mid-1990s a (usually unspoken) assumption was beginning to take hold in the educated sectors of the population – and even among parts of the ruling elite – that the country was heading toward democratization, even though most people expected that democratization would take many years, would probably occur very gradually and partially, and would have to wait for Soeharto to pass from the scene. When the Soeharto regime suddenly looked shaky in 1997, this meant that the regime’s crisis was not resolved by means of a revived and

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<sup>48</sup> This rhetoric was particularly prevalent in hardline circles within the armed forces. See Jun Honna, *Military Politics and Democratization in Indonesia* (London: RoutledgeCurzon, 2003).

<sup>49</sup> Interview with Asmara Nababan, 8 February 2008. Asmara Nababan added that there was considerable internal lobbying within government ranks at this time, with Foreign Affairs Ministry spokespersons at times attempting to persuade their colleagues from other departments not to adopt harsh attitudes to critics, precisely because they felt they already had a hard job defending Indonesia’s human rights record in international forums. Significantly, it was a Foreign Affairs Ministry official, Hassan Wirajuda, who approved The Asia Foundation’s grant to Komnas HAM (interview with Douglas Ramage, 8 February 2008).

<sup>50</sup> For an elaboration of this argument, see Aspinall, *Opposing Suharto*, pp. 112-15.

refashioned authoritarianism (which might have happened had student protestors succeeded in toppling Soeharto in the 1970s), but by a decisive move toward democratic reform.

### **III. The Democratic Breakthrough: Short-Term Factors**

#### *Weak Opposition and Apathy: Soeharto's Continuing Sources of Domestic Strength*

On the eve of the financial crisis of 1997, Indonesia's political situation was in a condition of stasis. Despite growing political discontent over the previous decade, organized opposition remained weak. There was a radical opposition movement at the fringes of the political system, but it had largely gone underground after the purge of 1996 and did not seriously threaten the regime. There were many NGOs, but even the most critical ones were avowedly apolitical, issue-oriented and only loosely connected. The "semi-opposition" in the political mainstream, on the other hand, was still largely controlled by the regime, and most of its members considered seeking Soeharto's removal – even through constitutional means – a political taboo. Very few influential elite figures had consistently oppositional attitudes towards the regime. Political protagonists like NU chairperson Abdurrahman Wahid and Amien Rais, the leader of Muhammadiyah, frequently changed their stance: if opposition to Soeharto seemed politically beneficial, they criticized the government; if support for the regime offered benefits, they dropped their opposition. PDI chairwoman Megawati Soekarnoputri was more consistent: she refused to acknowledge the legality of her ousting from her party's leadership, but refrained from openly confronting Soeharto for fear that her followers would get in harm's way. Accordingly, there was almost no truly oppositional elite group, and there was no coalition between them. Moreover, not only was there no powerful opposition outside the political system, there were also no serious divisions inside the regime because Soeharto had successfully marginalized disenchanting elements within the military. The decade of increased media openness, societal mobilization and public criticism had eroded some of the regime's political legitimacy and generated widespread political dissatisfaction. However, discontent was mixed with a large dose of resignation and apathy. Few Indonesians could imagine any way to challenge the New Order, let alone replace it.

#### *Economic Crisis, Unrest and Elite Splintering: Domestic Dynamics of Soeharto's Fall*

Despite the already existing signs of regime decay, it took the economic crisis of 1997 and 1998 to spark such an eruption of societal protest that Soeharto ultimately was forced

to resign. Without this unprecedented decline in the Indonesian economy, Soeharto may have never left the presidency during his lifetime. However, when the crisis occurred, he was already 76 years old and in power for over three decades, and gave every impression of being overextended by the economic meltdown. Beginning with the floating of the Thai baht in mid-1997, the crisis had swiftly reached Indonesia, where Soeharto initially failed to recognize its significance. Strangely indifferent to the great socio-economic hardship caused by the crisis, the ageing autocrat appeared out of touch, tired and simply incapable. With the president rapidly losing his aura of strength and competence, public confidence in the regime collapsed and made way to a growing belief that its overthrow was now feasible.

The severity of the crisis that confronted Soeharto becomes tangible if its statistics are put into historical context. Both in its dimensions and its suddenness, the economic downturn in 1997-98 was the biggest growth collapse in the country since the 1930s.<sup>51</sup> Indeed, with a contraction of the overall economy of around 18 percent, Indonesia's financial decline was one of the sharpest in modern history. Significantly, the fall occurred after almost 30 years of annual growth rates that were in the range of 5 to 10 percent, and an average of 7 percent in the 1990s. Accordingly, the sudden slump occurred at a time when Indonesians had become used to constant improvements in their living conditions, and when international investors had begun to categorize the country as an "emerging Asian tiger". Such a dramatic plunge from a showcase of successful development to a symbol for corruption and mismanagement could not be without consequences for the legitimacy of the New Order. For much of his rule, Soeharto's claim to power had depended on his ability to provide economic growth, low prices for basic food items, and satisfactory public services. But with prices now exploding, unemployment rising, and public services declining, Soeharto's authority all but evaporated. As middle class Indonesians stormed supermarkets to stock on goods, and the poor were hit hard by mass-layoffs and skyrocketing prices for basic necessities, their "contract" with Soeharto – which had allowed him to rule with an iron fist if he delivered economic benefits in return – was gradually dissolved.

The economic disaster was aggravated by Soeharto's declining health and his inability to offer coherent concepts to overcome the crisis. In December 1997, several national dailies hinted at rumors that the president had died, triggering another steep drop in the rupiah. As it turned out, Soeharto had suffered a mild stroke and had to rest for several days, during which Indonesia's political elite engaged in intensive internal discussions about his succession. Soeharto, however, tried to tough it out. Making only token gestures toward reform, he moved to reassert his authority ahead of the 1998 MPR session. To begin with, he named his trusted aide B.J. Habibie as his next vice-president, defying both international creditors (who viewed the technology minister as a big-

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<sup>51</sup> Anne Booth, 'Growth Collapses in Indonesia: A Comparison of the 1930s and the 1990s', Paper Presented at the 13. Economic History Congress in Buenos Aires, July 22-26, 2002.

spending economic illiterate) and domestic observers (who belittled him as a rather comical figure). Given Habibie's unpopularity and unpresidential demeanor, most observers read his anointment as a clear signal that Soeharto had decided not to retire at all and die in office instead. In March 1998, he had himself re-elected to his seventh presidential term, and subsequently installed a highly nepotistic cabinet. With Soeharto unwilling to reform and no solution to the economic upheaval in sight, international and domestic investors alike continued to move their funds offshore. It was now plainly evident that the economic crisis had become inextricably connected to the political crisis enveloping the country.

Soeharto's position was particularly precarious because the agenda for political change was no longer exclusively pushed by Indonesia's tiny oppositional elite, but by massive popular protest. In the past, Soeharto had successfully anticipated challenges to his regime by dividing, co-opting or intimidating potential dissidents. This time around, however, Soeharto faced an opponent that was much more difficult to manipulate: the student movement, which began in February 1998 in Jakarta and quickly spread to other cities all over the archipelago. Openly propagating regime change, the students skillfully linked their demand to public concerns over rising prices by using the slogan "*Turunkan Harga*", which literally means "Lower the Prices!", but was widely understood as an acronym for "*Turunkan Soeharto dan Keluarganya*", or "Down with Soeharto and his family!" In organizing their demonstrations, the students utilized personal networks on campuses and tapped into their experiences of underground activism which had accumulated over the preceding decade. These informal information channels made up for the lack of more sophisticated means of communication, with internet and mobile phones not yet widely available in Indonesia at that time. Despite this handicap, the student protests were well-planned and highly effective. For instance, the students staged carefully chosen acts of disobedience, such as ignoring the military's warnings not to leave campuses. When several military commanders eventually allowed the students to protest outside of their universities, this concession was seen as a symbolic victory for the movement that motivated the demonstrators to continue their activities. In consequence, by mid-May crowds of ordinary citizens were joining student protests in many towns across Indonesia.<sup>52</sup>

While less organized and not tied to a specific political demand, violent riots among the urban poor were another crucial precipitating factor in the regime transition. Initially, these uprisings took place in small towns along the north coast of Java, targeting shops owned by Indonesia's ethnic Chinese minority. As the crisis progressed, however, the unrest reached larger cities as well. In early May, rioters raged in the North Sumatran

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<sup>52</sup> Edward Aspinall, "The Indonesian Student Uprising of 1998", in Arief Budiman, Barbara Hatley and Damien Kingsbury, eds., *Reformasi: Crisis and change in Indonesia* (Clayton: Monash Asia Institute, 1999): 212-238; Dave McRae, *The 1998 Indonesian Student Movement*, Working Papers on Southeast Asia No. 110 (Melbourne: Monash University, 2001).

capital of Medan, angered by the government's decision to increase fuel and electricity prices – in line with IMF strictures. Significantly, the Medan riots provoked the first wave of defections by regime loyalists from the government, with previously staunch Soeharto supporters now demanding a special session of the MPR to replace him. Amidst these heightening tensions, on 12 May army troops fired on students in Jakarta's Trisakti University, killing four of them. These killings led to widespread rioting in Jakarta and the Central Java town of Solo, with countless properties destroyed, some women raped and over 1,000 people dead – mostly looters trapped in burning buildings. Again, many of the rioters attacked Chinese shops as well as other businesses associated with the regime, such as those run by Soeharto's children. There was also extensive opportunistic looting, and although this was apolitical in nature, it consolidated the image of a speedy descent into lawlessness. With pictures of Jakarta in flames broadcasted nationwide (and around the world), Indonesians in all corners of the country now felt that Soeharto's end was near.

Although the mobilization of students was highly effective in overthrowing the regime, it did not succeed in forming a democratic alternative to the fallen New Order. Instead, it was Habibie who took over from Soeharto. There were several reasons for this. First, the protest movement did not coordinate its actions with a wider political opposition. To be sure, the network of NGOs working on human rights and similar issues provided moral and some logistical support for the demonstrators. They also continued to publicly expose the depredations of the regime, and were among the most strident voices calling for regime change. But in the greater scheme of things, the NGOs remained marginal. Second, the semi-opposition in the political mainstream kept a deliberate distance from the student movement. Wahid and Megawati, for instance, never established linkages with the protesters. Robison and Hadiz assert that both leaders harbored a deeply elitist disdain for the populism of the students, and feared that their own influence could decline should the movement succeed.<sup>53</sup> The only leader of a large socio-religious group who joined the student protest was Muhammadiyah chairman Amien Rais. He alone was unable, however, to translate the anarchic power of the popular dissent into a strong democratic alliance. And therein lies the third reason for the inability of the student movement to crown its campaign with the inauguration of a non-regime transitional government: the fragmentation of the political elite simply made such an effort unfeasible. Wahid, Megawati, Amien and other leaders were so distrustful of each other that they ruled out cooperating on the formation of a joint government. Accordingly, when Soeharto stepped down, leading civil society figures had to concede the right to govern to the president's handpicked successor.

In the developments that led to Soeharto's fall, the ruling elite played a very passive, almost reflexive role. Nevertheless, it was the desertion of key supporters that at

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<sup>53</sup> Robison and Hadiz, *Reorganising Political Power*, p. 171.

the end of the day frustrated Soeharto's efforts to cling to power. Up until his final moments in office, Soeharto failed to grasp the importance of the mass movement that demanded his resignation. By contrast, the majority of his loyalists better read the signs. The first serious cracks in the regime had emerged in early May after the Medan riots, and from there on, no day went by without some New Order bureaucrat, politician or entrepreneur trying to prepare his or her smooth transition into the post-Soeharto era. After the Jakarta unrest, the floodgates of the regime broke completely. Only days after the mass violence in the capital, the chairman of Golkar and head of parliament – a notorious Soeharto sycophant – declared that his mentor had to step down or face impeachment. This was followed by the resignation of 14 members of Soeharto's cabinet, who also declared that they did not want to be reappointed to any reshuffled government led by the incumbent president. Finally, the commander of the armed forces, General Wiranto, told Soeharto in unambiguous terms that while the military remained loyal to the elected ruler, it was not prepared to violently quell the protest. After this series of defections and warnings, Soeharto told his assistants to phone Habibie and ask him to prepare for his inauguration on the next day. From this sequence of events, it becomes clear that the final splitting of the regime was a response to the New Order's crisis, not a cause of it. It was only when the student movement and urban riots had made Indonesia virtually ungovernable that the mass exodus of Soeharto loyalists from the regime began.

Despite the crucial significance of the protest movement and the elite defections that accompanied it, Soeharto's own role in the transition should not be overlooked. He resigned without testing the loyalty of his generals and withdrew into retirement at his residence in Central Jakarta. Given his strong control over the military since the 1960s, such a quick surrender could not be taken for granted. Without doubt, he could have ordered military hardliners to suppress the demonstrators. Had he attempted such a final crackdown, the transition outcome may have been substantially different. A reconstituted authoritarian regime may have been able to cling to power, if only for a time and at great cost (at one point military officers told Amien Rais that a "Tiananmen scenario" in Indonesia was not out of the question, referring to the Chinese government's 1989 massacre of anti-government protestors). Precisely why Soeharto refrained from taking this step is little understood, but presumably he too recognized the risk of massive bloodshed and political uncertainty that such a course would entail. Arguably, he was also aware of the parallels between his own decline and that of his predecessor Soekarno, which had stretched from 1965 to 1967. Over two painful years, Soekarno had desperately tried to defend his position, only to be gradually stripped of his presidential powers and put under house arrest. As the person responsible for Soekarno's treatment, Soeharto must have feared a similar fate at the hands of his opponents should he try to stay on. Furthermore, his decision to step down was also encouraged by promises of protection: General Wiranto issued a warning immediately after Soeharto's resignation that the armed forces would protect the "dignity of former presidents and their families",

which was widely understood to mean that the wealth of the Soeharto family should not be touched by the new government.

*Diplomatic Hesitancy: Continuing International Sources of Regime Strength.*

As we have seen, foreign pressures on the Soeharto regime from the late 1960s to the 1990s had mostly been weak and ineffective. Threats of sanctions had fallen on deaf ears, the pro-democracy NGOs supported by international donors were marginalized from mainstream politics, and Indonesia's growing economic importance had prevented most Western governments from pushing Soeharto too hard on human rights issues and institutional change. Even once the economic crisis began, there was little meaningful diplomatic pressure designed to bring about political reform. Most foreign powers had cultivated a close working relationship with Soeharto for more than three decades, and even Indonesia's former communist adversaries China and Russia had reconciled with the New Order regime in the late 1980s and early 1990s. Given that Soeharto had survived previous crises, these major international players were not certain just how vulnerable he was this time around. Accordingly, throughout the crisis of 1998, no major foreign government openly suggested that Soeharto should step down until his departure appeared inevitable. The first official U.S. statement (by Secretary of State Madeleine Albright) calling for Soeharto to stand aside did not come until May 20 and was more a reflection of Soeharto's hopeless domestic situation than a decisive international push behind his resignation.

*The Asian Crisis and IMF Intervention: International Factors Driving Regime Change*

While Soeharto's resignation was not the result of political intervention or pressure by foreign governments, international factors nevertheless played a tremendously important role in the crisis that led to his downfall. However, these factors were more structural and "accidental" in nature than part of a purposely designed democratization strategy for Indonesia. First and foremost, there is no doubt that the Asian economic crisis was the trigger for the domestic events that left Soeharto no other choice but to leave office. That a sudden downturn in the regional economy could have such an enormous impact on Indonesia's internal politics was, in turn, due to its increased integration into the world market. Beginning with the deregulating policies of the mid-1980s, Indonesia had transformed itself from a predominantly oil-dependent economy into an increasingly successful exporter of manufactured goods. By the 1990s, Indonesia's rising participation in global trade markets and capital flows was reflected in numerous statistics calculated by the IMF and other financial institutions. For example, in an IMF index that measured the share of foreign assets and liabilities as a percent of GDP, Indonesia in 1990 scored

59.3 and 72.9 respectively, indicating a medium-range level of integration into the world's financial system. By contrast, China (19.3/38.9), India (27.7/29.9), Brazil (34.1/45.1) or Turkey (39.5/48.9) were much less incorporated into the global economy at that time.<sup>54</sup> Indonesia's broadening financial linkages helped drive its economic growth in the early 1990s, but it also made the country vulnerable to the world's stock markets and their shifting assessments of political and economic risk.

So long as Indonesia's economy was booming, its access to and dependence on international money flows was seen as an advantage. Impressed by continuously high growth rates, investors tended to overlook the many structural and regulatory problems in Indonesia's economic system. This included severe deficiencies in the banking sector, which was riddled with abuse and bad loans. In the same vein, Indonesia's growing foreign debt did not create concerns in times of expanding industrial output and exports. Indonesian companies had borrowed heavily in dollars on world markets, something they could comfortably afford to do while the rupiah remained pegged at a more or less stable rate to the dollar. However, most market players turned a blind eye to the possibility that unexpected fluctuations in the rupiah could trigger a rush to buy dollars and cause the Indonesian currency to collapse. As it turned out, this is exactly what happened in late 1997 and early 1998.

Despite the absence of foreign calls on Soeharto to resign, there *was* one international intervention that proved crucial in deciding the outcome of the political crisis: the IMF-led effort to rescue Indonesia's economy from meltdown. However, this program *did not* intend to remove Soeharto from office – it was in fact crafted to stabilize Indonesia's economy and, by implication, its government. But ironically for both Soeharto and the IMF, severe blunders and miscalculations in its implementation turned the international aid package from the president's lifeboat into his Titanic: the IMF did not alleviate, but worsened Indonesia's crisis, and thus indirectly assisted in Soeharto's resignation. While most economic analysts today agree that this was the result of errors of judgment on the part of the IMF, in Indonesia and elsewhere conspiracy theories about the IMF's allegedly vicious machinations have been rampant. In his book "The IMF Game – The Role of the IMF in Bringing Down the Suharto Regime in May 1998", the pro-Soeharto Islamic activist Fadli Zon concluded that "the 100-plus conditions the IMF forced on the country were indeed designed to destroy Suharto's power base and to open the economy to outsiders."<sup>55</sup> Consequently, the analysis of this (failed) rescue package is of essential importance for the evaluation of international influences on the 1998 regime change.

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<sup>54</sup> International Monetary Fund, *Indonesia: Selected Issues*, IMF Country Report No. 07/273 (Washington D.C.: IMF, 2007), p. 13.

<sup>55</sup> Fadli Zon, *The IMF Game – The Role of the IMF in Bringing Down the Suharto Regime in May 1998* (Jakarta: Institute for Policy Studies, 2004): p. 5.



In addition to the IMF's assistance, the attempt to lift Indonesia out of its economic mess was also backed by the World Bank, the Asian Development Bank (ADB) and a number of foreign governments. In October 1997, Indonesia had asked the IMF for the first time to help out with emergency credits. Based on this request, a memorandum was signed that required Indonesia to take various reform steps, including closing 16 troubled banks and addressing corruption in the wider banking sector. When this did not have the desired effect, with both the rupiah and the economy continuing to slide, a second deal was negotiated and announced in January 1998. This package went even further than the first, abolishing a slew of Soeharto family and crony projects, such as the national car project and the cloves monopoly, each run by one of Soeharto's sons. Evidently, the IMF's plans did not simply focus on the country's macroeconomic settings, as was the case in most other countries where the organization had intervened with one of its emergency programs. Instead, the IMF concept drafted for Indonesia also asked for the elimination of corruption and crony business interests. From this perspective, the IMF played a highly political role – even if its packages did not extend to human rights, individual freedoms, or other institutional reforms.

The political consequences of the IMF packages were twofold. First, by highlighting the issues of corruption and cronyism, the IMF linked the resolution of the economic crisis to the political sphere. This was an association that Soeharto had tried hard to avoid, insisting instead that the current difficulties were merely a technical matter of fiscal management. In the eyes of the Indonesian public and most investors, however, the IMF's stress on fighting corrupt practices substantiated their long held suspicion that Soeharto was now a political liability rather than an asset. Soeharto's domestic opponents, for their part, quickly took up and amplified the IMF's (perhaps unintended) message that the economy was being destroyed by Soeharto's obsolete crony capitalism. Moreover, this notion itself seemed to be confirmed when Soeharto and his supporters resisted several of the IMF-dictated attempts to dismantle their business interests. For instance, when his son's bank was closed after the October package, he almost immediately re-opened it under a new name. As a result, a perception grew in international markets that Soeharto actively opposed the IMF's prescription, further consolidating his image as a stubborn, inflexible and aloof autocrat unwilling to reform his regime.

Second, and even more importantly, the IMF packages failed to address the substance of the economic crisis. In fact, they even catalyzed Indonesia's descent into socio-economic instability. For instance, when the IMF demanded that Indonesia close 16 banks without guaranteeing deposits held in other banks, millions of Indonesians rushed to withdraw all available savings from their accounts fearing that other monetary institutions would soon be shut down as well. This, in turn, provided the death blow to the already ailing Indonesian banking system, which now required tens of billions of dollars in fresh injections to be revived. Similarly, the symbolic anti-crony measures in

January 1998 “contained no hint of any plan for tackling a primary source of worry about the rupiah – the increasingly crippling foreign debt of Indonesian companies”.<sup>56</sup> As a result, the rupiah crashed even further. In a further blunder, the IMF requested that fuel prices be increased in May, rejecting proposals from the government that this be done at a later stage. This price hike triggered unrest in Medan in early May 1998, the beginning of a series of riots which was virtually unbroken until President Soeharto resigned three weeks later.

Given this long list of missteps, it comes as no surprise that critics like the abovementioned Fadli Zon have argued that the IMF deliberately intended to unseat the Soeharto government.<sup>57</sup> Fuelling the suspicions, Michel Camdessus, the Managing Director of the IMF during the crisis, admitted that the IMF’s actions may have had this effect: ‘We created the conditions that obliged President Soeharto to leave his job.’ However, in a caveat often left unmentioned by those who quote Camdessus’s admission, the latter added: ‘That was not our intention....’<sup>58</sup>

If it was not the IMF’s goal to remove Soeharto, why, then, did it pursue policies that focused on rooting out “KKN” (the widely used Indonesian acronym for collusion, corruption and nepotism)? It is worth noting that the anti-crony measures in the IMF packages were inserted only after considerable debate within the Fund, the World Bank and the governments of the advanced economies. In his account of these debates, Paul Blustein noted that the Japanese government was opposed to including extensive anti-KKN measures in the packages. However, such measures were eventually included primarily because of the “pressure from members of the IMF board representing Western industrial countries.”<sup>59</sup> In particular, he recalled, U.S. administration officials “wanted reforms to extend well beyond the typical Fund program, which normally would be confined to fixing macroeconomic problems such as excessive spending.”<sup>60</sup> IMF staff adopted this expansive approach partly because they believed symbolic action was needed against the cronyism which they saw as central to Indonesia’s economic woes, but also because they were influenced by economic reformers *inside* the Soeharto government. In Blustein’s account, Indonesian economists and even some technocrat ministers who were frustrated with their inability to tackle vested interests linked to

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<sup>56</sup> Paul Blustein, *The Chastening: Inside The Crisis That Rocked The Global Financial System And Humbled The IMF*, (New York: Public Affairs, 2001), p. 216.

<sup>57</sup> One international analyst who also has promoted this view is Stephen Hanke, the Johns Hopkins economics professor who promoted the idea of a currency board to stabilize the rupiah during the crisis, an idea which was for a time enthusiastically supported by Soeharto himself. See Steve H. Hanke, “On the Fall of the Rupiah and Suharto”, *Globe Asia*, January 27, 2007. Reprinted at: [http://www.cato.org/pub\\_display.php?pub\\_id=7772](http://www.cato.org/pub_display.php?pub_id=7772).

<sup>58</sup> David E. Sanger, “Longtime I.M.F. Director Resigns in Midterm”, *The New York Times*, November 10, 1999. Our thanks to Ross McLeod for drawing our attention to the original source of this quotation.

<sup>59</sup> Blustein, *The Chastening*, p. 101.

<sup>60</sup> Blustein, *The Chastening*, p. 101-2. Blustein writes that the U.S. was particularly influential, partly crediting this response to pressure on the Clinton administration by NGOs.

Soeharto encouraged the Fund to incorporate “an attack on the monopolies and subsidies that had flourished thanks to KKN.”<sup>61</sup> A senior and well informed U.S. diplomat confirmed that some of Soeharto’s senior advisors found institutions like the cloves monopoly “highly offensive” to their sense of rational economic order, privately urged the IMF to take strong measures against them, and were delighted when it did so.<sup>62</sup> More broadly, the IMF’s stance was “welcomed by pro-democracy activists who saw it as a rare opportunity for pushing the reform agenda and ending Suharto’s long-term rule.”<sup>63</sup>

The position in the IMF and in the U.S. administration hardened after Soeharto defied the Fund on various reform issues and the crisis consequently spiraled out of control. Even so, in January 1998, as the rupiah collapsed and President Clinton and other world leaders telephoned Soeharto, “The dominant message was that Suharto could lead his country out of the mess, but doing so would require demonstrating a renewed commitment to IMF discipline and structural reforms of the KKN-riddled economy.”<sup>64</sup> After the failure of the January reform package, Robert Rubin and Larry Summers in the U.S. Treasury took a firmer stance and concluded that Indonesia needed political reform and that Soeharto probably had to go. There is little evidence, however, that this view dictated the subsequent policy agenda or even that it was dominant in the U.S. administration, with important voices in the State Department and the Pentagon arguing that Soeharto remained a powerful player and that the IMF should limit itself to a macroeconomic agenda.<sup>65</sup> In practical terms, the growing frustration with Soeharto translated into a “short leash” in the economic domain: when a renewed pact with the IMF was negotiated in April it “included a long list of commitments and target dates for action”, as well as “step-by-step monitoring.”<sup>66</sup> Soon the debates were rendered moot:

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<sup>61</sup> Blustein, *The Chastening*, p. 101.

<sup>62</sup> Confidential interview, 28 March 2008. According to the same diplomat, U.S. deputy secretary of the Department of Treasury, Larry Summers, had known Soeharto’s top economics advisor Widjojo Nitisastro for several decades. This personal connection draws attention to a continuing nexus between highly-placed Indonesian technocrats and the U.S. which was a legacy of one of the oldest and arguably most abidingly influential parts of U.S. development assistance in Indonesia: the training of a corpus of Indonesian economists from the 1950s onward, initially under the sponsorship of the Ford Foundation. A group of these U.S. trained economists became technocrat ministers in the early cabinets of President Soeharto. In the 1970s, they were popularly dubbed the “Berkeley Mafia” and exercised great influence on economic policy-making. By the late 1990s, however, they were increasingly sidelined by the rise of Soeharto’s children and protégés, and economist nationalists like Habibie. For a sympathetic account of the technocrats’ role in Indonesia’s economic and political development, see John Bresnan, *Managing Indonesia: The Modern Political Economy* (New York: Columbia University Press, 1993).

<sup>63</sup> Dewi Fortuna Anwar, “The Fall of Suharto – Understanding the Politics of the Global”, in Francis Kok-Wah Loh and Joakim Öjendal, eds., *Southeast Asian Responses To Globalization: Restructuring Governance And Deepening Democracy*. (Nordic Institute of Asian Studies, 2005): 201-232, p. 218.

<sup>64</sup> Blustein, *The Chastening*, p. 209.

<sup>65</sup> Blustein, *The Chastening*, p. 227-31. This assessment was confirmed by a senior U.S. diplomat interviewed in Washington D.C., 28 March 2008.

<sup>66</sup> John Bresnan, “The United States, the IMF, and the Indonesian Financial Crisis”, in Adam Schwarz and Jonathan Paris, eds., *The Politics of Post-Suharto Indonesia* (New York: Council on Foreign Relations Press, 1999): 87-112, p. 96.

within two months, Indonesia had gone from economic downturn to a full political crisis, and events were moving too quickly for the IMF or other international actors to keep pace. By the time U.S. Secretary of State Madeleine Albright finally called on Soeharto to step down on May 20, his domestic political support base had already crumbled.

Despite its political constraints and miscarried implementation, the IMF rescue package *was* a clear example of an attempt to assert conditionality in the provision of economic aid. Moreover, the intervention took place at a moment when Indonesia was exceedingly vulnerable and therefore much more susceptible to international pressure than at times of normal regime stability. Accordingly, the IMF offered further credits if Indonesia complied with the conditions it set, and threatened to withhold monies if these benchmarks were not met. The IMF sent evaluation teams to Indonesia, based on whose reports the Washington headquarters of the organization would decide on further credits. In reality, however, the bargaining power of the IMF and other international powers was not as formidable as it may seem. The IMF and other donors were greatly worried that cutting off aid completely would throw Indonesia into total chaos, and that such a breakdown would irreversibly damage the reputation of the IMF itself. This dilemma was clearly expressed by Rubin in front of the U.S. Senate in March 1998: 'The IMF faces a very difficult issue. On the one hand, it seems to me that you do have to have compliance with their conditions if they're going to release (the next \$3 billion in funds). On the other hand, I don't think any of us should have illusions about the seriousness of this decision because Indonesia is in a very difficult situation, and there are all sorts of very serious consequences that can come from that.'<sup>67</sup> Ultimately, the crisis was so fast moving and the desire to avoid Indonesia's economic collapse so great, that even when the teams reported that Indonesia had not fulfilled its obligations, the IMF quickly moved to renegotiate new packages. With this, the credibility of the conditionality stipulations was much reduced.

On the other side of the equation, Soeharto was clearly aware that the IMF did not want to take the risk of freezing all payments to Indonesia. This may explain his apparent belief that he could enjoy the rewards of the aid package without giving substantial concessions in return. But even without the threat of aid suspension, Soeharto could not avoid following some of the recommendations and demands made by the IMF. The world's stock markets reacted sensitively to any signs that Soeharto was blocking urgently needed reforms, and the assessment of the IMF on this issue mattered greatly to investors and brokers. In addition, the money from the IMF kept Indonesia liquid at a time of massive capital outflow. For that reason, the embattled autocrat reluctantly agreed to some carefully chosen compromises, which made his domestic adoption costs reasonably severe: his family had to give up some of its pet projects, he had to accept foreign interference in his economic policies, and the proposed cut in government fuel

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<sup>67</sup> John Bresnan, 'The United States, the International Monetary Fund and the Indonesian Financial Crisis', Discussion Paper No. 8, APEC Study Center, Columbia University, 30 June 1998, p. 12.

subsidies threatened to stir up dissatisfaction in the population. However, at no point did the IMF succeed in pressuring Soeharto to adopt political reforms, and only very few institutional changes to the country's economic system were made that went beyond *ad hoc* gestures of compliance.

With the IMF weakened by unclear goal-setting and technical blunders, and Soeharto never fully grasping the gravity of the situation he was in, the engagement between the Indonesian government and the IMF in those few fateful months of late 1997 and early 1998 produced an outcome which neither party had intended. As Blustein concludes:

Up to the time of the January 15 program, the IMF and High Command, including the Treasury, were desperately trying to ameliorate the crisis, and little thought was being given to Indonesia without Suharto. His downfall was not the result of a Machievellian scheme to topple an autocrat; it was the upshot of an international rescue attempt gone badly, embarrassingly and radically awry.<sup>68</sup>

Beside the inept intervention by the IMF, there were several other international factors that influenced the course of events in 1997 and 1998. None of these factors was decisive in shaping the transition outcome, and mostly they were interlinked with domestic developments. Nevertheless, they contributed to the social, political and economic environment in which Soeharto's downfall finally became possible. To begin with, the foreign funding for critical NGOs since the 1980s had not been without effects on Indonesian society. While institutionally powerless to engage in mainstream politics, civil society groups planted important ideas of human rights, political reform and individual liberties in Indonesia's public discourse. Gradually, these universal concepts of political rights had taken root, and when the politico-economic crisis began to escalate in 1997, Indonesia was a different place than it had been in the 1970s and 1980s. The media was more critical, social activism had become an accepted part of daily life, and regime repression was no longer viewed as an inevitable side effect of strong governance. Foreign-funded NGOs were by no means the only or even the most important force bringing about this change. Although difficult to quantify, however, their dissemination had helped to create a climate in which the student movement could successfully mobilize against the injustice, brutality and calcification of the New Order government. However, it is important to note once again that without the trigger of the unprecedented economic meltdown, the NGO activism itself would not have posed an immediate challenge to the regime.

Similar to the problem of assessing the exact impact that the international socialization of democratic values has had in Indonesia, it is not easy to specify how

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<sup>68</sup> Blustein, *The Chastening*, p. 233

important the examples of other countries were for the anti-Soeharto movement of 1998. If there was one case of successful mass protest against a long-time ruler in the region that inspired the students, it was the 1986 People's Power movement in the Philippines. Indonesian protesters carried banners with the slogan 'People's Power', and Amien Rais openly referred to Marcos' ouster as an achievement worthy of repetition in his own country.<sup>69</sup> However, beyond the adoption of its rhetoric and some of its symbols by the Indonesian movement, the Philippine experience did not play a crucial role in shaping the agenda or strategy of the students demonstrating against the New Order. Obviously, this was not a case of direct "contagion" brought about by geographical proximity<sup>70</sup>: the Manila event itself had not been the trigger for their protest, given that it had occurred 12 years earlier when Soeharto was still firmly in power. The model of 'People's Power' therefore belonged to those international reference points that became relevant only once Soeharto's position had already been weakened.

Another international factor that played a limited, but significant role was the increased presence of the international media in Indonesia. The potential power of filmed evidence of human rights violations had already been demonstrated in 1991, when tapes showing a massacre of civilians in East Timor had been smuggled out of the Indonesia-occupied territory, forcing Soeharto to set up an unprecedented military tribunal to punish the perpetrators. This time around, film teams from CNN, BBC and other global networks moved freely on the streets of Jakarta, interviewing demonstrators and closely observing the movements of the military. A crackdown would have taken place under the watchful eyes of journalists and photographers, who broadcasted their reports and pictures quickly around the world. Indonesian Defense Minister Juwono Sudarsono confirmed that "heightened satellite TV news attention during the May upheavals did result in the army restraining itself from excessive use of force against demonstrators."<sup>71</sup>

Of course this raises the question why Soeharto did not simply ban foreign journalists from Indonesia, and also refrained from imposing more controls on the domestic media. Arguably, Soeharto needed the presence of foreign journalists to cover what he believed would be the stabilization of his regime. Declaring a media blackout on Indonesia would have destroyed whatever confidence there was left in international stock markets, and the capital flight would have certainly accelerated. In consequence, the international media restricted Soeharto's room to maneuver, and when the student demonstrations had damaged him irreparably, he no longer had the power to follow the example of other authoritarian regimes (China, for example) and expel all foreign journalists in anticipation of a major crackdown.

Given the proliferation of foreign media in Indonesia during the crisis, it is highly probable that international considerations influenced the decisions of key actors in the

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<sup>69</sup> 'Indonesia Heading for a Chaotic Democracy?', *The Age*, 17 May 1998.

<sup>70</sup> Laurence Whitehead, "Three International Dimensions of Democratization", in Laurence Whitehead, ed., *The International Dimensions of Democratization: Europe and the Americas* (Oxford: Oxford University Press, 1996): 3-25.

<sup>71</sup> Email communication with Juwono Sudarsono, 22 April 2008.

transition. Most importantly, Soeharto's relatively swift surrender must have at least partly been due to concerns that his international reputation could suffer if he exited amidst a bloodbath. In his more than three decades as president, he had increasingly enjoyed the international stage, and he took great pride in his many relationships with other heads of state, prime ministers, kings and leaders of multilateral organizations. In widely publicized remarks in October 1997, Soeharto revealed that one day he planned to retire as a *pandhito*, a wise spiritual counselor. And while this did not indicate a real intention to resign from office, it pointed to his perception of himself as an honorable elder statesman, who was respected and loved around the world. Combined with his final realization that his power had irretrievably vanished, fear for his international image was most likely one of the elements in his decision not to order a final crackdown on his opponents. In addition, the possible impact of such a move on the stock markets, the IMF and the willingness of foreign governments to extend further aid to Indonesia must have also been on Soeharto's mind. In fact, his long-time security czar, Admiral Sudomo, told the veteran journalist Allan Nairn "that Suharto fell because they failed to open fire early and thoroughly on the Jakarta student demonstrators, because they feared further US aid cutoffs [...]."<sup>72</sup> Consequently, while it remains unclear to which extent international calculations influenced Soeharto's reluctance to suppress the movement against him, it is likely that they played at least a small part.

Likewise, anxieties over possible international repercussions certainly contributed to the decision by the armed forces chief, General Wiranto, not to take power when Soeharto resigned. While the domestic context was overwhelmingly hostile to such an option, and Wiranto therefore would have found it very difficult to assume government, concerns over the reaction by foreign powers added to his stance. Technically, Wiranto had been authorized to exercise emergency powers by letters Soeharto had issued several days prior to his resignation. These letters were very similar to those Soeharto had received from Soekarno in March 1966, and which had allowed the former to establish and expand his authority. On 20 May 1998, shortly before Soeharto concluded that he had to step down, Wiranto had discussed the military's options with a circle of academics and political observers. The clear result of this meeting was that the armed forces should support the ascendancy of Vice-President Habibie to the helm of government. Alternatives, such as military government or a triumvirate of ministers under Wiranto's leadership, were ruled out. Salim Said, a prominent academic and participant in the discussions in Wiranto's office, recalled that "there was no mention of international considerations" at that time, and that before the meeting Wiranto had already decided "that constitutional procedure would be followed and the military would not endeavor to take power".<sup>73</sup> Even so, it is unlikely that the armed forces chief did not consider

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<sup>72</sup> These comments can be found on Allan Nairn's blog site. See [http://www.allannairn.com/2007\\_12\\_01\\_archive.html](http://www.allannairn.com/2007_12_01_archive.html), (accessed on 19 April 2008).

<sup>73</sup> Email communication with Salim Said, 21 April 1998.

international factors as well. In his autobiographical account of the events, Wiranto proudly published a letter by the Commander of the U.S. Pacific Command, Joseph W. Prueher, who praised him for “bringing about the orderly transfer of leadership in Indonesia, and in a way consistent with the Constitution.”<sup>74</sup> Apparently, the opinions of his international counterparts mattered greatly to Wiranto.

The ruling elite of the crumbling New Order was not the only group of political actors in the crisis that paid close attention to international perceptions of its behavior, however. Leaders of the popular protest were equally keen to convey to the world that while determined to remove Soeharto, they rejected violence and radicalism. Accordingly, mainstream student groups tried to stay clear of leftist underground cells that had fought Soeharto in the mid-1990s, and they also made an effort to avoid the impression that their protests aimed at establishing an Islamic state in Indonesia. While Muslim student associations formed a large part of the movement, they believed that Western countries would not drop Soeharto if the alternative to him were an Islamic theocracy. Partly for that reason, the students stressed the inclusiveness of the movement by giving non-Muslim and ethnic Chinese leaders particularly prominent positions in the organization of the protest. Amien Rais, who many suspected of harboring Islamist ambitions, even took the step of traveling to Europe and the United States at the height of the crisis, trying to convince governments there that he had now turned into a responsible and pluralist politician. During a discussion in Washington on 30 April, Amien underlined that for the “last seven months, I have actively conducted dialogs with the leaders of other religions, like the bishops. They come to my house in Yogyakarta and have regular meetings with me. I am also invited to speak in front of Christian students.”<sup>75</sup> Claiming that the protest against Soeharto was disciplined, pro-democracy and multi-religious, Amien clearly attempted to address international concerns about his (and the movement’s) intentions.

Finally, Habibie’s decision to immediately liberalize the political system after Soeharto’s resignation was to some extent a reflection of international expectations and his own long experiences outside of Indonesia. To be sure, domestic dynamics left him no other choice but to radically reform the political system if he wanted to stay in power. Habibie’s ascension to the presidency was not what the students had demonstrated for, and oppositional figures tolerated his rule only because he promised free and fair elections within a year. But it is unlikely that international concerns were not part of the considerations that motivated him to introduce multi-party democracy after more than forty years of authoritarian rule. Dewi Fortuna Anwar, one of his closest advisers at that time, stated that “liberalizing Indonesia’s political system was also seen by President Habibie as a means to attract international support for Indonesia’s recovery effort and

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<sup>74</sup> Wiranto, *Witness in the Storm: A Memoir of an Army General (Ret.)* (Jakarta: Delta Pustaka Press), p. 197.

<sup>75</sup> See ‘Amien: Pemimpin Golkar Kehilangan Arah’, *Jawa Pos*, 1 May 1998.



transform Indonesia's international image after three decades of authoritarian rule."<sup>76</sup> By the same token, Habibie's own exposure to experiences with democratic systems abroad must have at least been in the back of his mind when crafting Indonesia's post-authoritarian polity. Habibie had lived in Germany from 1955 to 1974, witnessing first hand the development of the post-war democracy there. And while Habibie was one of the greatest beneficiaries of Soeharto's repressive rule (both in terms of increasing political power and rapidly expanding personal wealth), his time in Germany gave him an intimate knowledge of the workings of liberal democracies that came very handy after May 1998.<sup>77</sup>

#### **IV. Conclusion: Indonesia's 1998 Regime Change – Domestic Pressures and International Influences**

Most regime changes are the result of complex interplays between domestic and international factors. Often internal developments are reinforced, but not initiated by external influences, making it difficult to identify and isolate the major causes of democratic transitions. The Indonesian case is no exception in this regard. Nevertheless, a number of clear judgments can be made.

First of all, the material presented in this paper suggests that for more than three decades, none of the threats of sanctions, multi-billion dollar loans or foreign-funded pro-democracy programs could convince the Soeharto government to implement political reforms. In 1997, when the crisis of the New Order began, its institutional format was largely still the same as in the early 1970s. It is not merely that threats and incentives used by the international community to influence Soeharto had been ineffective. More to the point, political reform in Indonesia had not been viewed as a strategic priority in most foreign capitals. From the 1990s, many Western leaders had made calls for more openness, less human rights violations and expanded civil liberties in Indonesia. But they rarely did so forcefully, and mostly they advanced such requests in order to appease vocal civil society groups in their own countries. None sought to place regime criticism at the core of their bilateral relations with Jakarta. In the eyes of many foreign powers, Soeharto was an important ally in the Cold War, an anchor of stability in Southeast Asia, and the ruler of an increasingly promising economic market. Most European countries, the U.S. and Australia had significant financial interests in Indonesia, often protected by the very repressive methods that their governments rhetorically criticized. Fully aware of the

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<sup>76</sup> Email communication with Dewi Fortuna Anwar, 21 April 2008.

<sup>77</sup> On this subject, Anwar explained that Habibie's 'long years of living in Germany where he experienced first hand life in a liberal democratic society with a decentralised government had a profound impact on B.J. Habibie's political thinking. Habibie often used Germany as a referent point every time he had to make key decisions on political issues, such as political liberalisation and decentralisation. (His decision to make Bank of Indonesia independent of the Government was also influenced by the Bundesbank example).' Email communication with Dewi Fortuna Anwar, 21 April 2008.

dynamics that constrained his foreign counterparts, Soeharto felt confident and strong enough to easily fend off any outside requests for political change.

It was not without irony, then, that the trigger for the events leading to Soeharto's fall *was* in fact an external one. But this initial spark was not the result of sudden geopolitical shifts or any new policies by foreign governments. Rather, it was an economic shock of historic proportions that caused a domino effect throughout the region and finally destroyed the foundations of the New Order regime. Unprecedented in its social and political repercussions, the Asian economic crisis weakened Soeharto to such an extent that his resignation became inevitable. The fact that a monetary crisis could have such a destructive effect on Indonesia's domestic politics was due to Soeharto's own reforms of the economy since the 1980s. Indonesia's increased integration into the world economy had made Indonesia attractive to foreign investors and the stock markets, but had also made it vulnerable to their fluctuating preferences. During the crisis, financial brokers decided that Indonesia was no longer so promising for investment, and pulled out billions of dollars in a matter of days.

However, it would be wrong to conclude that the global markets punished Indonesia for its undemocratic polity and thus successfully exerted the kind of external pressure that foreign governments had been unable to impose. Significantly, the other two economies most seriously hit by the rejection of the markets were consolidating democracies: Thailand and Korea. Obviously, in making their financial decisions, investors did not discriminate between ageing autocracies and democratic systems. In fact, their actions hurt the latter seriously. Thailand's democracy fell into a deep crisis as a result of the economic downturn, helping to set the scene for Thaksin's "electoral authoritarianism" from 2001 onwards. Korea's polity, by contrast, survived the monetary disaster, but took many years to recover.

Given that investors did not desert Indonesia simply because of the autocratic nature of its regime, other considerations must have been dominant. At first, these were mostly related to calculations of economic risk in light of the exogenous shock of the wider Asian meltdown – the accumulation of bad debt and manipulation in Indonesia's banking sector was from the start of critical importance. To the extent that these problems were themselves a product of the corruption which had grown unconstrained under Suharto's rule, they did have a political dimension. However, it is important to be cautious in directly linking corruption to the economic crisis. Hal Hill, an expert on Indonesia's economy makes this point:

[C]orruption was a serious problem, but it is difficult to advance the argument that it was a key precipitating variable. More plausible is the thesis that the particular forms corruption, and the political system in general, had assumed by 1990s rendered the Suharto government

unwilling – indeed unable – to move decisively and swiftly once the crisis had hit.<sup>78</sup>

Authoritarian regimes frequently collapse during economic crises, in part precisely because they lack the flexibility to adjust nimbly to them.<sup>79</sup> It was precisely this inflexibility that made Soeharto's regime unable to survive. In particular, once the effects of the international crisis had already begun to be felt in Indonesia, it was Soeharto's failure to provide a clear blueprint for his succession that increasingly preoccupied and unsettled international stock markets and ordinary Indonesians alike. For more than 30 years, the markets had entrusted their funds to a strong, healthy and middle-aged Soeharto, whose authority seemed unchallenged. But now the autocrat was 76 years old and in questionable health, and there was no reassuring scenario for the time after his death. Arguably, had Soeharto groomed a successor early and arranged for an orderly transition in time, the investors would have reacted differently. In this regard, there was one element of the regime's corruption that did come into play once the crisis had started to unfold: the nepotism in the Soeharto clan. For many years, multinational companies had not objected to establishing joint ventures with Soeharto's children – the obligatory bribes were predictable and often even tax-deductible in their home states (Germany, for example, only abolished this practice in 1999). With Soeharto's own future in doubt by early 1998, however, his entire patronage system looked like a shaky foundation on which to build long-term business plans. Many foreign-owned power plants, mining operations or infrastructure projects required investments of 20 years or more, and nobody knew if a post-Soeharto government would honor the contracts signed with his children. In short, it was the increasing unpredictability of Indonesia's domestic politics that made international investors nervous, much more so than the underlying deficiencies and corrupt mechanisms in its economic structures.

While the influence of the markets on Indonesia's domestic polity was based on its increased integration into the world economy, the impact of the IMF-led emergency intervention in 1997 and 1998 was of a much more 'accidental' nature. Set out to re-stabilize the Indonesian economy, the IMF program went so badly wrong that it assisted in the very regime change that its inventors had explicitly not intended. Such a direct external intervention with unintentional consequences poses difficult challenges to the analysis of international influences on domestic processes of democratization. How to deal methodologically with an intervention plan that had aimed at the recovery of the non-democratic regime, but helped to unseat it inadvertently by miscalculating the impact of the requested emergency measures? Can, for instance, the IMF claim credit for

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<sup>78</sup> Hal Hill, *The Indonesian Economy in Crisis: Causes, Consequences and Lessons* (Singapore: Institute of Southeast Asian Studies), p. 69.

<sup>79</sup> Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995); Stephan Haggard, *The Political Economy of the Asian Financial Crisis* (Washington D.C.: Peterson Institute for International Economists, 2000 ), p. 125.

initiating democratic change in Indonesia by demanding economic reforms that accelerated Soeharto's demise? Was the bodged implementation of the aid package a blessing in disguise for Indonesia that ended 40 years of authoritarian rule, and can thus be a guide for future IMF dealings with stubborn autocrats? Or is the case of the IMF's intervention a clear example of irresponsible trial-and-error policies, driven by incompetent bureaucrats unfamiliar with Indonesia's domestic conditions? Whatever the final judgment will be on this issue, it seems evident that the IMF needs to improve the quality of its planning procedures, so that its programs have intended rather than arbitrary results.

Such improvements are particularly important since the impact of other foreign interventions in Indonesia were much more indirect and difficult to measure. Over the 1990s, a democratic mood had gradually grown in Indonesian society, undermining the legitimacy of the New Order regime and ensuring that, once its final crisis came, the successor regime was likely to be democratic. Many factors played a part in this mood shift. Most important were domestic changes, including Indonesia's economic and social transformation, and the fading salience of the regime's founding rationale. Playing a secondary role in this mix were international factors, such as the donor support provided to Indonesian NGOs and other civil society groups and the changing international atmosphere brought about by the end of the Cold War. These international factors thus helped to set the scene for Indonesia's democratic transition, but they did so by making an indirect and minor contribution to an ideational shift which in turn also had an indirect effect on the transition. In this regard we see in Indonesia another case of what Diane Ethier described as "international systemic changes and diffuse social processes that have very likely influenced the trajectory and scope of democratization but whose effects cannot be measured by empirical evidence."<sup>80</sup>

Certainly, it is hard to make a case for a direct connection between democracy promotion activities by foreign actors and the fall of Soeharto. In the popular movement that forced Soeharto to resign, none of the groups that had been funded by foreign donors throughout the years played a significant role. The marginality of these NGOs was illustrated nicely by the Suara Ibu Peduli (SIP, Voices of Concerned Mothers) initiative. Staging small demonstrations against the regime in February 1998, its members complained about high milk prices and distributed flowers to by-passers and security forces. Many of the SIP leaders had been recipients of Ford Foundation grants in the past, a fact that was reportedly a source of some pride in the Foundation.<sup>81</sup> SIP members' activism was also inspired by international ideas of women's rights and civil liberties. But while their protest gained much publicity and added to the general mood of collapsing public confidence in Soeharto, it was also emblematic of the inability of

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<sup>80</sup> Diane Ethier, "Is Democracy Promotion Effective? Comparing Conditionality and Incentives." *Democratization*, 10:1 (2003): 99-120, p. 99.

<sup>81</sup> Interviews with Sidney Jones, Jakarta, 30 January 2008 and Hans Antlov, Jakarta, 8 February 2008.

(foreign-funded) NGOs to organize real political pressure: the SIP group was tiny, and it was made up of highly-educated, elite Jakartan women who had little contact with ordinary Indonesians. Moreover, they were no match for the repressive apparatus of the New Order. Bundled quickly into police cars, the SIP women did not pose a credible threat to the regime.<sup>82</sup> This example shows that foreign support for NGO activism involving the middle class was important at the symbolic level, and in the arena of political discourse. This was important, even crucial, to the transition. But the fact remains that the forces that successfully drove the regime change were *not* part of the community of foreign-funded groups.<sup>83</sup> At most, such groups played a support role: such as SIP itself, when it helped to organize food deliveries to the students who occupied Indonesia's parliament building in the days leading to Soeharto's resignation.<sup>84</sup>

To conclude, two important international factors contributed to the democratic breakthrough in Indonesia in 1998, indeed they were key proximate causes: the Asian economic crisis and the intervention by the IMF. However, neither was driven by the goal of ending Indonesia's deeply entrenched tradition of authoritarian rule. Foreign investors were simply no longer convinced that Soeharto could guarantee their investments in the longer term, and the IMF had actually planned to save Indonesia's economy, not to catalyze its collapse. Despite their unintentional nature, the Asian meltdown and the IMF's failed aid program were crucial triggers for Soeharto's resignation.

This stands in sharp contrast to other, more deliberate efforts by foreign powers to exert pressure on Soeharto to reform or present a clear plan for his withdrawal from politics. External support for pro-democracy groups in Indonesia was half-hearted and ineffective, and there were no meaningful diplomatic efforts to push for political change, either on a bilateral or multilateral level. Madeline Albright's statement on 20 May that "now (Soeharto) has the opportunity for an historic act of statesmanship -- one that will preserve his legacy as a man who not only led his country, but who provided for its democratic transition"<sup>85</sup> ended a long history of unsuccessful (and indeed, not-so-serious)

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<sup>82</sup> Naturally, its foreign donors had a different perspective on SIP's relevance. According to Mercy Corps, SIP 'initiated protests that helped to change the history of the world's fifth most populous nation. (...) Their bravery and other protests against the regime encouraged Indonesians to join the rising public demand for political rights, honest government and lower prices.' See Mahfirlana Mashadi, 'When Mothers Speak, Milk Prices Come Down - And So Does a Government', November 7, 2002, at <http://www.mercycorps.org/countries/indonesia/173>, (accessed on 21 April 2008).

<sup>83</sup> In fact, some of the main beneficiaries of international support turned out to be obstacles to Soeharto's removal: Wahid's NU, for instance, stood by Soeharto until the very end. Wahid, widely praised in international forums for his progressive attitude on pluralist Islam, even denounced the student movement as dishonest and corrupted. Only five days before Soeharto's resignation, Wahid still claimed that the student movement would 'fade away' like its predecessors in 1974 and 1978. See 'Ada Pembelokan Arah Reformasi', *Jawa Pos*, 17 May 1998.

<sup>84</sup> Myra Diarsi, "Sekian Dapur Umum", *Jurnal Perempuan*, 4 (June 1998): 1-2.

<sup>85</sup> Secretary of State Madeleine K. Albright, Commencement Address to the United States Coast Guard Academy, New London, Connecticut, May 20, 1998. As released by the Office of the Spokesman, U.S. Department of State.

attempts by Western governments to persuade the Indonesian autocrat to adopt reforms. For 32 years, international powers had backed Soeharto despite his dismal human rights record, prioritizing his importance for their political, economic and security interests. Now that the student movement had used the impetus of the economic disaster to topple Soeharto, Albright could only retrospectively give her blessing to a democratic revolt that Western governments had done so little to bring about.