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280 Park Avenue, New York, N.Y. 10017 U.S.A.

INDONESIA 1984

William H. Overholt

Vice President
Political Assessment Group

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Indonesia has consolidated the trends which were evident at the time of the last review, ensuring that it will not become another Mexico, Venezuela, or Nigeria because of the fall in oil prices, but achieving somewhat more ambiguous results in addressing its long-term problems.

Short-Term Financial Management

The contrast between Indonesia's economic and financial management on one hand, and the management of other poor oil exporting countries with large populations on the other, has become even more striking. Before getting into difficulty, Indonesia devalued its currency (27.6 percent in March 1983), canceled or deferred or privatized major state development projects (most notably a petrochemical complex, an aromatics plant, an oil refinery, an aluminum plant, and a coal mine expansion), decreased subsidies on tea goods (notably petroleum products), and introduced important banking reforms such as decontrol of interest rates. Indonesia's decisiveness convinced Western donors to provide \$2.2 billion in aid, and 1983 was a lucky year for Indonesia's agriculture and its non-oil exports.

This decisiveness has already averted the kinds of crises experienced by Indonesia's OPEC brothers. However, the possibility of backsliding must be continuously monitored.

So far, Indonesia's economy has not been affected seriously by the great fire in Kalimantan, perhaps the greatest known forest fire in human history, which burned down an area larger than Sri Lanka.

Medium-Term Political Management Issues

In the recent past, Suharto has faced major challenges from Islamic groups, from anti-Chinese sentiment, from groups who demand more liberal political policies, and from increasing recognition of the need for a new generation of leaders.

Suharto's immediate measures to cope with these pressures have had the mark of political genius. He compromised with Muslim leaders, calling off government harassment of moderate Islamic spokesmen, subsidizing numerous Islamic groups and projects, and persuading the Nahdatul Ulama (the large, moderate Muslim teachers party) to accept the government's state philosophy of Pancasila.

Suharto conducted the 1983 elections in such a way that there was no chance for the opposition to win, but nonetheless in a flexible, open manner which elicited an impressive victory for the government.

Suharto severely penalized members of the Petition of Fifty, an alliance of diverse elite opposition groups, and then offered various carrots to key leaders. He succeeded in attracting enough leaders back to the fold to

destroy the Petition of Fifty group. The opposition was subsequently severely divided and demoralized.

Suharto addressed the issue of generational change much more directly than leaders in, for instance, Taiwan and the Philippines. In the first six months of 1983, he changed virtually every senior general in the army, appointing members of a small transitional generation. This satisfied the need for change, but did not create any major challenge to Suharto's leadership. The older generals were given great honors and lucrative positions so that the turnover occurred so smoothly as almost to be missed by the international press.

The civilian aspect of this leadership change was less dramatic. The economic technocrats were already younger, more dynamic men. Suharto reappointed many of them. Indeed the new cabinet has more technocrats and fewer political leaders than the old cabinet. This outcome is reassuring to those concerned about the future of sound financial and economic management. Politically, however, it represents a circling of the wagons, an assurance that the cabinet will mount no challenges to Suharto. This is helpful for stability in the short-run, but could create a sense of vacuum when the succession comes. In the meantime, it reduces the likelihood of major initiatives to cope with long-term social issues (see below).

Suharto also appointed a new vice president, replacing the flamboyant (and allegedly corrupt) Adam Malik with General Umar, a relatively unknown military officer who is non-threatening to Suharto, a symbol of probity to civilians, and an acceptable transition figure to senior military officers. The appointment surprised everyone, and the advancement of so many political goals (stability, probity, institutionalization) with one appointment reinforced Suharto's brilliant reputation.

Politically, Suharto took major steps. The governing party, Golkar, will henceforth be run by a civilian for the first time. It will also be allowed for the first time to organize politically at the village level, with individuals rather than just corporate groups permitted to join the party. This suggests that Suharto is preparing the option of turning Golkar into a real political party and perhaps of moving in the direction of civilian leadership in the future. So far, this is just an option rather than a likelihood.

Longer-Term Social Management

On longer-term issues, there is good news and bad news. The good news is that Suharto has been building institutions while neighbor Marcos has been destroying them. For, instance, the army has become a solid institution, instead of a collection of personal entourages. The national oil company has been institutionalized. The appointment of General Umar as Vice President increased the probability that the succession to Suharto will be conducted along institutionally defined paths rather than by coup. This is why, although it starts from a very weak base, Indonesia has achieved a measure of stability while the Philippines has become increasingly chaotic.

The bad news is that Indonesia's longer-term social problems remain as they have been. First, the country has almost unbelievable poverty in central Java and Bali, combined with a national unemployment level of 30-40 percent. Second, Indonesia has almost completely neglected non-oil exports and is excessively dependent on oil for its long-term financial stability. These two problems are closely interrelated, since investment, particularly foreign investment, in light industry could alleviate both problems. These very serious problems which have been analyzed a length in previous reviews, are discussed in Indonesia, but so far very little concrete has been done.

Conclusions

Suharto's brilliant political management and sound financial management make Indonesia a relatively attractive market in the short run. He has avoided both the political problems of Marcos in the Philippines and the financial problems of his OPEC counterparts. However, until there is decisive evidence that the longer-term social and export problems are being dealt with, one must be wary about doing a large volume of longer-term business.